



The Impact of Longevity on Retirement Needs: Changes in Retirement: Expected and Unexpected

Presentation to NAIC Symposium on Senior Issues:

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on Post Retirement Needs and Risks

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Agenda

- Context
- Research Findings
 - Changing Capabilities During Retirement
 - Planning for Retirement / Financial Planning
- Addressing Issues

- Note: Appendix is provided with supplemental information

Context

Context

- Shift to DC plans – more primary DC plans
- Today's new retirees – transition group; fewer have DB and DB plans less generous
- Shift to DC meant loss of disability coverage in retirement plans and loss of lifetime income options for many
- Employee largely on own for risk protection
- Problems with financial literacy
- Behavioral biases/Knowledge gaps stand in the way of optimum decisions
- Many families – limited financial assets
- Challenges include low fixed income investment returns and stock market volatility
- Women live longer – more affected by risks

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.

Changes Affecting Retirement

- **Sudden unplanned change**
 - Loss of spouse
 - Catastrophic personal or family illness
 - Major financial losses and loss of employment
- **Gradual change**
 - Aging including cognitive decline
 - Chronic disease
 - Inflation
 - Illness of spouse/partner
- **Deliberate and planned change**
 - Retirement or gradual reduction in work
 - Moving to new location including senior housing, CCRC
 - Marriage, divorce, caring for grandchildren, other family changes
 - Steps to improve health
- **NOTE: COMMON TO IGNORE CHANGES IN PLANNING**

Longevity: Life and Health Expectancy by Age (U.S. Data – in years)

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

Research Findings

Society of Actuaries Research Overview Post-Retirement Needs and Risks Committee

- SOA Committee produces research and other content: 15+ year effort
- Foundation: Managing post-retirement risks
- Focus: Middle income individual aged 50+
 - Take perspective of individual
- Committee Members: Broad range of expertise in various fields
- All reports publicly available on SOA Website
- Content: Perceptions, problems, and solutions
 - Core continuing project: Survey of post-retirement risk (every 2 years since 2001) (moved online in 2013)
 - Focus groups, round tables, research reports, and paper calls
 - Public education focus: Risk Chart and Decision Briefs

Major findings: 15+ years of work

- Big differences in pre-retirees expectations vs. retiree experiences
- Top risk concerns: inflation, health care, long-term care
- 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 methods of managing risks
 - Reduce spending, pay off debt
 - Little focus on risk management products
- Differences by gender
- Solutions are very difficult

Thinking About Later Years: “Experiencing Change in Retirement”

2014 Society of Actuaries Report combines perspectives and essays with analysis of data and focus group findings

- Underlying data selected from results of two studies
- 7th biennial Society of Actuaries post-retirement risk survey
 - Online survey of retirees and pre-retirees
 - Represents American population aged 45-80 at all levels
 - 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

Both studies conducted in 2013, methodology in Appendix: build on work done in 2007 survey

Major finding: Retirement often earlier than planned

- Expectations vs. reality: Retirees retired at average age of 58 – Pre-retirees expected to retire at average age of 65 (From 2013 Risk Survey)
- Many retirements are involuntary, plus
- Many voluntary retirees were “pushed” – reasons include job stress, care-giving needs (From 2013 focus groups)
- Some retirees retire without a careful financial analysis
 - Most common financial analysis is a short-term cash flow

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

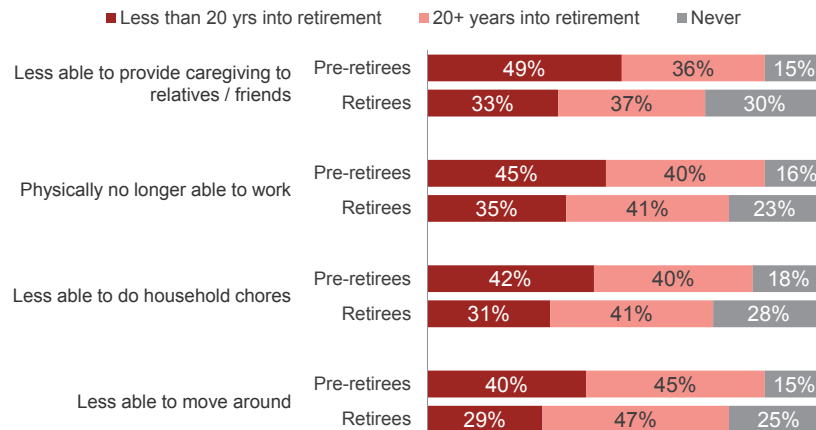
Changing Capabilities During Retirement

Changing Capabilities

- Focus groups provided insights to thinking: deal with things as they happen
- Studies show many gaps in knowledge – people often do not focus on risk management or may not have resources to do so
- Earlier work (2008 report) looked at extent of planning for later phases
 - Majority expected some limitations
 - About half expected expenses would increase with limitations
 - Big opportunity: Help people plan for period of limitations, many people do not plan for this period
- New focus of risk (2013 study): What is likely to change and how are we planning for it?

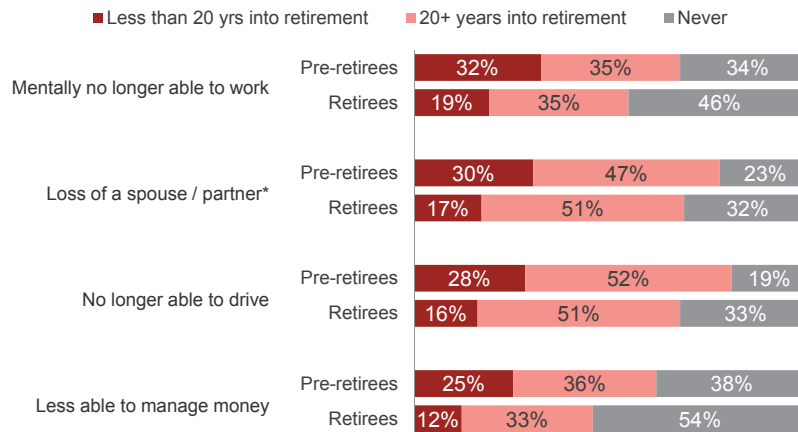
A quarter of retirees expect to never be physically unable to work or less able to move around

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

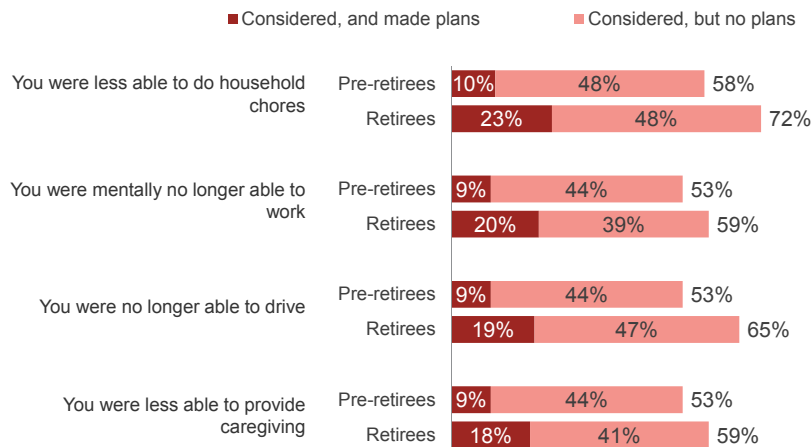
Changing Abilities Over Time, Cont.



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

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.



Planning for Retirement / Financial Planning

Planning for Retirement/Financial Planning

- For many, short-term cash flow is main focus
- For many, method of dealing with shocks is focus on them when they occur
- 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
- Insurance products – both annuities and long-term care not very high on list of risk management techniques
 - Much more focus on reducing expenses, saving more
- Many do not have a plan to spend down assets: they try to hold on to them for emergencies and later needs; new work in 2015 will explore how well that is working out
- New focus: What types of expenses can we plan for?

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.

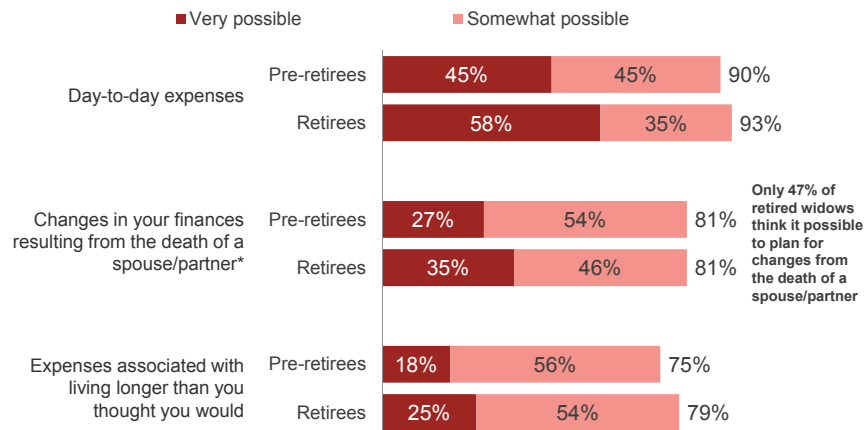
Female, Chattanooga

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

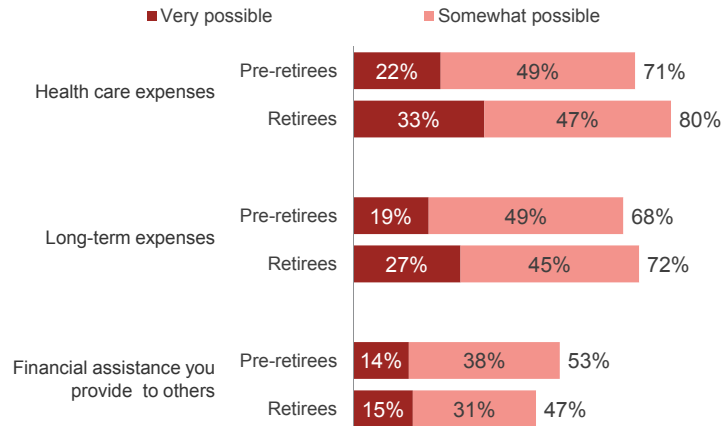
Except for day-to-day expenses, few think planning for key issues is very possible

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)



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

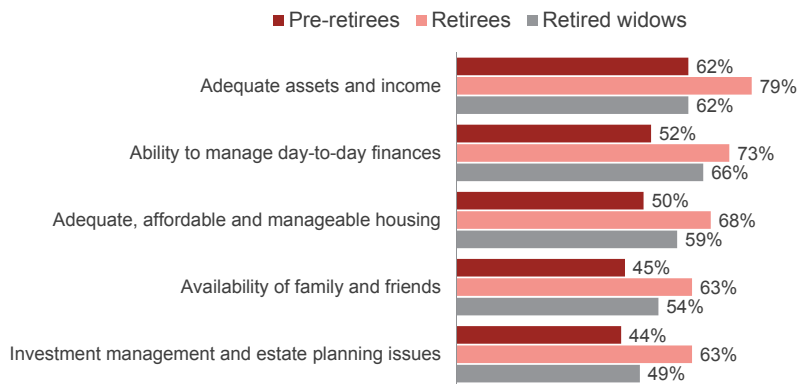
Possibility of Planning for the Following, Cont.



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



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

Addressing Issues

Observations about Research

- Gaps in knowledge are a critical issue
- Gaps in risk protection are also critical
- 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
- Focus group participants did not conceptualize retirement as having *distinct* phases
- No expectation, or planning for, loss of cognitive abilities
- Little or no planning for the financial consequences of natural aging process

Potential Roles for Insurance Departments

- Advocate for more risk awareness
- Public education – lack of retirement planning savvy, risk, and product knowledge
 - Might provide both literature and tools
- Address issues related to advisors and advice – if connected to insurance companies
- Product regulation
 - Products may be hard to understand
 - Products may not be considered when they should be
 - Difficult to compare products and figure out what good value is
- Insurance department deals with limited part of total retirement space

Note: Competitive purchasing arrangements are valuable

Appendix: Methodology and Background re Research

Background re Research Sponsor

- 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

Two studies linked to the Experiencing Change in Retirement Report

- 7th biennial post-retirement risk surveys
 - Surveyed on-line: Retirees and pre-retirees; widows oversampled
 - Represents American aged 45-80 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
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Methodology

- 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
- 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

Reference Documents

- Society of Actuaries 2014 Report: Experiencing Change in Retirement (research-2014-exper-changing-retire-2.pdf)
- Society of Actuaries 2008 Report: The Phases of Retirement and Planning for the Unexpected (research-2007-findings-phases-2.pdf)

Note: These two documents report on findings from the Society of Actuaries 2013 and 2007 Post Retirement Risk Surveys special areas of emphasis on what changes during retirement. All of the Society of Actuaries Post-Retirement Risk Research can be found at

<https://www.soa.org/research/research-projects/pension/research-post-retirement-needs-and-risks.aspx>

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 paper summarizing 15 years of work by the Committee, see 2013 Society of Actuaries Living to 100 papers