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

Presentation to NAIC Symposium on Senior Issues:
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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

- 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

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

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)

<table>
<thead>
<tr>
<th>Age</th>
<th>Non-Disabled</th>
<th>Mild or Moderate Disability</th>
<th>More Severely Disabled</th>
<th>Total Life Expectancy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MALES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>12.34</td>
<td>1.50</td>
<td>1.50</td>
<td>15.33</td>
</tr>
<tr>
<td>75</td>
<td>6.77</td>
<td>1.37</td>
<td>1.61</td>
<td>9.76</td>
</tr>
<tr>
<td>85</td>
<td>2.89</td>
<td>1.04</td>
<td>1.75</td>
<td>5.68</td>
</tr>
<tr>
<td>95</td>
<td>.81</td>
<td>.61</td>
<td>1.91</td>
<td>3.34</td>
</tr>
<tr>
<td></td>
<td>FEMALES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>13.65</td>
<td>2.97</td>
<td>2.83</td>
<td>19.44</td>
</tr>
<tr>
<td>75</td>
<td>6.99</td>
<td>2.55</td>
<td>2.96</td>
<td>12.50</td>
</tr>
<tr>
<td>85</td>
<td>2.47</td>
<td>1.74</td>
<td>3.03</td>
<td>7.24</td>
</tr>
<tr>
<td>95</td>
<td>.52</td>
<td>.78</td>
<td>2.54</td>
<td>3.84</td>
</tr>
</tbody>
</table>

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

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## 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)

<table>
<thead>
<tr>
<th></th>
<th>Less than 2 yrs into retirement</th>
<th>20+ years into retirement</th>
<th>Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less able to provide caregiving to relatives / friends</td>
<td>Pre-retirees 49%</td>
<td>Retirees 33%</td>
<td>36%</td>
</tr>
<tr>
<td>Physically no longer able to work</td>
<td>Pre-retirees 45%</td>
<td>Retirees 35%</td>
<td>40%</td>
</tr>
<tr>
<td>Less able to do household chores</td>
<td>Pre-retirees 42%</td>
<td>Retirees 31%</td>
<td>40%</td>
</tr>
<tr>
<td>Less able to move around</td>
<td>Pre-retirees 40%</td>
<td>Retirees 29%</td>
<td>45%</td>
</tr>
</tbody>
</table>
Over half of retirees and two in five pre-retirees expect they will never lose the ability to manage their money

<table>
<thead>
<tr>
<th>Ability Lost</th>
<th>Pre-retirees</th>
<th>Retirees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mentally no longer able to work</td>
<td>32%</td>
<td>19%</td>
</tr>
<tr>
<td>Loss of a spouse / partner*</td>
<td>30%</td>
<td>17%</td>
</tr>
<tr>
<td>No longer able to drive</td>
<td>28%</td>
<td>16%</td>
</tr>
<tr>
<td>Less able to manage money</td>
<td>25%</td>
<td>12%</td>
</tr>
</tbody>
</table>

*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

<table>
<thead>
<tr>
<th>Life Change Considered</th>
<th>Pre-retirees</th>
<th>Retirees</th>
</tr>
</thead>
<tbody>
<tr>
<td>You were less able to do household chores</td>
<td>10%</td>
<td>23%</td>
</tr>
<tr>
<td>You were mentally no longer able to work</td>
<td>9%</td>
<td>20%</td>
</tr>
<tr>
<td>You were no longer able to drive</td>
<td>9%</td>
<td>19%</td>
</tr>
<tr>
<td>You were less able to provide caregiving</td>
<td>9%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Planning for Changes in Retirement, Cont.
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)

<table>
<thead>
<tr>
<th></th>
<th>Very possible</th>
<th>Somewhat possible</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day-to-day expenses</td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td></td>
<td>58%</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>90%</td>
<td>93%</td>
</tr>
<tr>
<td></td>
<td>45%</td>
<td>45%</td>
</tr>
<tr>
<td></td>
<td>58%</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>90%</td>
<td>93%</td>
</tr>
<tr>
<td>Changes in your finances resulting from the death of a spouse/partner*</td>
<td>27%</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>35%</td>
<td>46%</td>
</tr>
<tr>
<td></td>
<td>81%</td>
<td>Only 47% of retired widows think it possible to plan for changes from the death of a spouse/partner</td>
</tr>
<tr>
<td>Expenses associated with living longer than you thought you would</td>
<td>18%</td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td>25%</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>79%</td>
<td></td>
</tr>
</tbody>
</table>

*Pre-retirees n=709; Retirees n=837*
Only a third of retirees think planning for health care expenses is very possible

Possibility of Planning for the Following, Cont.

- **Health care expenses**
  - Pre-retirees: 22% very possible, 49% somewhat possible, 71% not very possible
  - Retirees: 33% very possible, 47% somewhat possible, 80% not very possible

- **Long-term expenses**
  - Pre-retirees: 19% very possible, 49% somewhat possible, 68% not very possible
  - Retirees: 27% very possible, 45% somewhat possible, 72% not very possible

- **Financial assistance you provide to others**
  - Pre-retirees: 14% very possible, 38% somewhat possible, 53% not very possible
  - Retirees: 15% very possible, 31% somewhat possible, 47% not very possible

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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

- **Adequate assets and income**
  - Pre-retirees: 52% very possible
  - Retirees: 50% very possible
  - Retired widows: 45% very possible

- **Ability to manage day-to-day finances**
  - Pre-retirees: 62% very possible
  - Retirees: 66% very possible
  - Retired widows: 63% very possible

- **Adequate, affordable and manageable housing**
  - Pre-retirees: 59% very possible
  - Retirees: 68% very possible
  - Retired widows: 63% very possible

- **Availability of family and friends**
  - Pre-retirees: 44% very possible
  - Retirees: 54% very possible
  - Retired widows: 54% very possible

- **Investment management and estate planning issues**
  - Pre-retirees: 49% very possible
  - Retirees: 63% very possible
  - Retired widows: 63% very possible
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
  - Goal to understand decision to retire and rationale for money management

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

<table>
<thead>
<tr>
<th></th>
<th>Survey</th>
<th>Focus Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-retirees included</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Asset constrained</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>DB income available</td>
<td>73% of Retirees have DB income</td>
<td>Limited to $2,500 per month</td>
</tr>
<tr>
<td>Home ownership</td>
<td>35% of Retirees and 57% of Pre-retirees own with Mortgage: 53% of Retirees own with no Mortgage</td>
<td>Vast majority own with no mortgage</td>
</tr>
</tbody>
</table>

Reference Documents


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:
- 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