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Survey Says: 2015 Survey of Post-Retirement Risks and the Experience of Long-Term Retirees

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> **Using the survey and focus group information:** The complete survey report can be found at https://www.soa.org/Research/Research-Projects/Pension/2015-risk-process-retirement-survey.aspx. Special reports focusing on the areas of emphasis will be released throughout 2016 and will also be made available on the website. The focus group report can be found at https://www.soa.org/Research/Research-Projects/Pension/2016-post-retirement-experience-15-years.aspx.
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> Presentations of survey and focus group results were made at the 2015 SOA Annual Meeting & Exhibit and in a webcast this past February. Presentation materials containing these results and other committee work can also be found on the website. Actuaries are encouraged to share key results with clients and use the results to help establish the need for client action. They are welcome to use results in their presentations with proper documentation of the origin of the material used.
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> The results demonstrate that many members of the public need help in managing the post-retirement period, and show the value of employers offering support in that regard. They also demonstrate the need for more planning and better use of planning tools. (They do not demonstrate whether planning tools are adequate to handle the post-retirement period.) The results may help advisers and financial service companies identify some opportunities. The results may also be of interest to community groups.

For more than 15 years, the Society of Actuaries (SOA) Committee on Post-Retirement Needs and Risks has focused on improving retirement outcomes. The 2015 Risks and Process of Retirement Survey (the survey) is the eighth biennial study of public perceptions related to post-retirement risks. The survey, which was conducted in mid-2015, targeted some new, specific aspects of risk such as financial shocks (or dealing with the unexpected) and debt in retirement as well as how the experiences of parents influenced their children's planning processes.

This article presents some highlights of the survey findings. The study includes a combination of some repeated questions and special areas of emphasis. New areas of emphasis in 2015 are understanding shocks in retirement, including the impact of long-term care, and analyzing results by income level. Since both the 2013 and 2015 surveys included changes in methodology from the prior surveys (see below), direct year-by-year comparisons of survey results should be considered carefully.

SURVEY FINDINGS AND COMMENTARY

The hierarchy of concerns found in this survey and the strategies for risk management are similar to those found in previous iterations of the study. There is a general consistency in what respondents say is most important and in how they manage risk.

Risks viewed as most important: The retirement risk that most concerns both retirees and pre-retirees is long-term care (69 percent of pre-retirees and 58 percent of retirees are very or somewhat concerned). Rounding out the top three concerns are inflation (69 percent and 52 percent) and having enough money to pay for adequate health care (67 percent and 47 percent). Approximately two-thirds of pre-retirees and 4 in 10 retirees also express concern about the possibility of depleting their savings (62 percent and 43 percent) and maintaining a reasonable standard of living for the rest of their life (63 percent and 45 percent).

This series of post-retirement risk surveys has consistently found that the top three concerns are inflation, paying for health care costs, and paying for long-term care. Significant changes in economic conditions appear to generate only a temporary change in levels of concern, if any at all.

Keeping results in perspective: *Even though there are many risks that Americans face in retirement and even though retirees are often on their own in dealing with these risks, many people are not too concerned about some of them. A significant number of retirees may not be aware of all of the risks. For example, there seems to be little concern or awareness about the risk of fraud or a scam. However, scams can be devastating. The Consumer Financial Protection Bureau offers a series of materials on scams.*[1] *On the other hand, one of the top concerns is inflation. Even though inflation is purportedly low,* *retirees may be more affected than others by different things, such as health care costs, that may not be major drivers of general inflation. In addition, many retirees may be invested in fixed income assets, such as money market funds, that currently are earning next to nothing so the value of their investments may not be keeping pace with inflation. There are also significant differences in level of concern by income. Not surprisingly, lower-income retirees and pre-retirees generally show a higher level of concern.*

Managing risks: As in previous iterations of the risk survey, both pre-retirees and retirees tend to focus on strategies of saving and spending to manage the risks associated with retirement. A significant percentage of pre-retirees (88 percent) and retirees (86 percent) report they have already eliminated or plan to eliminate all of their consumer debt. Nine in 10 pre-retirees (90 percent) and three-quarters of retirees (74 percent) say they already have saved or plan to save as much as they can, while similar proportions have already cut back or plan to cut back on spending.

Pre-retirees and retirees are much less likely to turn to risk pooling strategies to manage retirement risks (other than health insurance). Half of pre-retirees (50 percent) and 2 in 10 retirees (20 percent) indicate they plan to or have already postponed taking Social Security. Only one-third of pre-retirees and one-quarter of retirees report buying (or expecting to buy) an annuity or choosing an annuity option from an employer plan. There is relatively low interest in financial products for risk management except for health insurance (including Medicare supplements).

The 2015 survey included a question to find out what people were most likely to do if they were running out of money. Reducing expenditures significantly was the top result with 90 percent of retirees and 88 percent of pre-retirees indicating that they would do this. Work was a major area of focus for pre-retirees with 74 percent of pre-retirees indicating that they would either try to return to work or increase the number of hours they were working compared to only 35 percent of retirees. Downsizing housing was also a major area of focus with 65 percent of pre-retirees and 55 percent of retirees choosing this option. Housing is a major area of expenditure, but some may have already downsized. These responses were in sharp contrast to the number who indicated that they would get help from family members, friends or communities. The vast majority did not expect to get such help. Only 20 to 25 percent expected to get help from either family members, or friends and community agencies.

The 2015 survey and focus groups were also designed to dig deeper into what events occurred in retirement that could derail or complicate a retiree's financial status. Overall, these events, considered shocks, had a material impact on many retirees with more than 1 in 3 survey respondents experiencing financial shocks that depleted at least 25 percent of their assets and more than 1 in 10 retirees stating that they needed to reduce their spending by 50 percent or more as a result of shocks. The types of shocks that were mentioned most frequently included major home repairs, dental expenses, prescription drug costs and divorce.

There is a strong preference for maintaining—or increasing—asset levels in retirement. The most common retirement asset management strategy is maintaining financial assets by withdrawing only earnings and leaving the principal intact. About one-quarter try to grow their assets, but only 2 in 10 plan to spend down their assets. The rest have no plan for how they will manage their assets in retirement. Over 60 percent of pre-retirees and 40 percent of retirees do not have a plan for how much money they will spend each year and where that money will come from. It is encouraging to see that most retirees and retired widows (72 percent) spend about what they can afford each year.

Keeping results in perspective: *Many people do not have enough financial assets at time of retirement and during retirement to effectively use risk pooling strategies such as annuities. An emergency fund is a first priority. Both prior and recent focus group results indicated that many resource-constrained retirees prefer to hold on to assets, making them available as an emergency fund. They try not to spend down their assets and generally limit their withdrawals to the Required Minimum Distribution amounts at age 70½ and later. In the focus groups, some participants even expressed that they didn't like having to take these distributions. This may be an area for future public policy discussions, especially as life expectancies continue to increase. They also appear to be surprisingly resilient in their ability to absorb and adapt to shocks.*

Experience of parents: This is the first of our risk surveys that looked at how parents' experiences influenced their children's risk concerns and planning. About half of the respondents indicated that their parents' experiences had influenced their concerns. The large majority (84 percent of pre-retirees and 78 percent of retirees) of those who are more concerned about their financial security in retirement due to their parents' experiences report that those experiences have impacted their own preparations for retirement either a great deal or some. Only a few (10 percent of pre-retirees and 8 percent of retirees) indicate their parents' experiences have left them less concerned.

Death of a spouse: Few of the respondents expect to experience negative financial consequences from the death of a spouse. Among those who are married, both pre-retirees and retirees believe the death of one spouse would have little effect on the financial situation of the survivor. However, 4 in 10 married pre-retirees think their spouse would be better off financially if they were to pre-decease their spouse. Fewer than 2 in 10 in both groups think the survivor would be worse off.

Keeping results in perspective: *As it has become increasingly clear that there are major gaps in financial literacy and analytical approaches to planning, it becomes much more important and interesting to learn what factors influence how people think about financial risk and longer-term decisions. In particular, many households do not have a good understanding of the impact of the death of a spouse, especially if there was a long period of illness prior to the first death, and if the survivor was a caregiver. It can be a further strain if assets were spent down to care for the person who was ill. Research shows that many people are not doing a careful analysis of their longer-term financial situation, and the impact will be very different depending on the family.*

Overall results: Overall, there is much consistency in the results of this work, and there are some main conclusions that have emerged:

Pre-retiree expectations often do not line up well with the actual experiences of retirees. This is true with regard to retirement age, expectation of working in retirement, and other areas.

Inflation, health care and long-term care consistently are among the risks retirees and pre-retirees are most concerned about. There are several risks, like fraud or scams, which seem like they should be important but retirees show little concern about them.

- Pre-retirees are often more concerned than retirees.
- Reducing spending is the top risk management strategy among those surveyed, followed by increasing savings and paying off debt. The use of risk protection products (other than health insurance) is not very common.
- There are major gaps in retirement planning and relatively short planning horizons are common.
- Longer-term retirees appear to be managing well and are remarkably resilient, demonstrating the ability to absorb and adapt to most shocks. This may indicate the need for future research about traditional measures of retirement adequacy.

Retirement timing: People actually retire at a much earlier age than people say they want to retire. In the 2015 study, the median age at which people actually retired was 60 compared to 65 as the median age when people said they want to retire. This is not surprising when involuntary and "pushed" retirements are considered.

Planning as one nears or enters retirement: Planning tends to be cash-flow-based and short-term—people make decisions based on what they are currently spending for routine expenses compared to the income they expect to receive. Most do not think about setting aside an "emergency fund" for things like major home repairs that can be anticipated (such as replacing a roof). Planning horizons for both retirees and pre-retirees are consistently only about 10 years, which is inadequate to cover the period of retirement. Almost 3 in 10 report they have not thought about their planning horizon (28 percent of pre-retirees and 29 percent of retirees), and 1 in 10 state they do not plan ahead (10 percent of pre-retirees and 11 percent of retirees).

Working during retirement: Working longer is an important strategy, but many more people say they want to do this than actually do work in retirement.

Long-term care: The survey and in-depth interviews with caregivers found that when significant paid long-term care is needed, it is a major problem—across all of the economic ranges covered by the focus groups and the interviews.

Keeping results in perspective: *Many people are reaching retirement age today without adequate preparation for what faces them. There are two different paths for dealing with this—help people make better decisions and be better prepared, or structure systems to be less dependent on individual decisions. It seems unlikely that there will be much improvement in decision-making, so default options and plans that work without individual action (like so-called "auto features") continue to be very important. Defined contribution plan sponsors should also consider adding features, such as lifetime income options, to help individuals plan for the post-retirement as well as the pre-retirement period.*

OPPORTUNITIES FOR PENSION ACTUARIES

As pension actuaries, we are responsible for asking the right questions, assessing the risks, and helping our clients think about better solutions. Here are some things to consider:

- What happens when employees can't retire or retire too early?
- How can current programs be modified to improve risk options?
- What products or plan features can better meet retiree needs?

Here are some more "global" concepts for us to consider:

- How should risk-protection systems change to meet the evolving work and retirement landscape?
- What planning tools can we design to assist people in accumulating assets, deciding when to retire, claiming benefits and spending down assets?
- Can we improve risk-protection products?
- Given how people make decisions, how do we help them better manage pools of assets prior to and in retirement?

- What expertise can we share with and adapt from other financial planning professionals for motivating individuals to plan for retirement?

RESEARCHER AND METHODOLOGY

This survey, as well as the seven prior surveys, was conducted on the SOA's behalf by Mathew Greenwald and Associates Inc. The 2013 and 2015 surveys were conducted online while the prior six surveys were conducted by telephone. The most recent survey was preceded earlier in 2015 by a series of 12 focus groups in both the United States and Canada, which probed longer-term retirees and their caregivers on their actual experiences compared to their original expectations.

Unlike the previous six iterations, which were conducted by telephone, the last two surveys were conducted online. As part of the 2015 survey, 2,040 adults ages 45 to 80 (1,005 retirees and 1,035 pre-retirees) were surveyed in August 2015. An additional 282 responses were collected from retired widows. Individuals were selected for participation using Research Now's nationwide online consumer panel. Two cautions are needed in working with the 2013 and 2015 results: Although some of the questions are very similar to prior questions, comparisons of direct numerical results should be avoided as the methodology affects responses somewhat, and samples are not random with online surveys.

Survey responses from current retirees and those not yet retired (referred to in these reports as "pre-retirees") are analyzed separately. No effort has been made to oversample individuals with high levels of assets and responses do not provide specific insights concerning high-net-worth individuals. Only 6 percent of pre-retirees and 9 percent of retirees report having investable assets of $1 million or more. ■

ENDNOTE

1 http://www.consumerfinance.gov/blog/category/scams/

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