

ANNA RAPPAPORT CONSULTING
STRATEGIES FOR A SECURE RETIREMENTSM



**What Research Results Do I Want
to Share?**

Anna Rappaport
Long Term Care Think Tank
March 17, 2010



Agenda

- Who are we?
- Perspectives on work
- Findings from research
 - Segmenting the middle market
 - Phases of retirement



Who are we?

Committee on Post-Retirement Needs and Risks

- **Focus is on understanding and mechanisms to assist in the distribution phase of retirement**
- **Work includes**
 - Developing Consumer Profiles for the Middle Market
 - Managing Post-Retirement Risks
 - Risks and Process of Retirement Surveys
 - 2001, 2003, 2005, 2007 and 2009
 - Select issues for special focus
 - Study of Retirement Planning Software



Perspectives on Solutions/Research

- Ten years of experience with Post-Retirement Risk
- Lot of research, but very hard to find solutions
 - No agreement on right answers
 - Seeking wholistic solutions
 - Issues are complex and interacting
 - Involve trade-offs
- Biggest decisions for many people
 - When to claim Social Security
 - Housing
- Using research results often not easy
 - Challenge: focus on longer term



Research results: themes

- Relatively short term planning horizon
- Gaps in knowledge about post-retirement risk
- Gaps in action – knowledge does not spell action – hard to get people to act
- Employer is important
- Not too much change over time
- Reluctance to use financial products to manage risk
- People more influenced by immediate/recent events than longer term
- Pre-retirees more concerned about risk than retirees
- Not unusual for people to be more optimistic than justified
- Software not well aligned to solutions



Segmenting the Middle Market

Total Middle Market Households: 32,209 (Ages 45 to 74; \$50k to \$1,000k Net Worth; 25th to 85th percentile of all households)

Six segments profile the “Middle Mass” households:

- Total “Middle Mass” Households: 26,841 (25th to 75th percentile of all households) **Six segments profile the “Middle Affluent” households:**
- Total “Middle Affluent” Households: 5,368 (75th to 85th percentile of all households)



“Middle Mass” Segments

55 to 64 year-olds

Married (#1)

Single Female(#2)

Single Male(#3)

households

5.2 Million

2.5 Million

1.4 Million

Avg. Income

\$75,000

\$28,000

\$41,000

Assets

\$348,000

\$111,000

\$125,000

65 to 74 year-olds

Married (#4)

Single Female(#5)

Single Male(#6)

households

3 Million

1.9 Million

0.9 Million

Avg. Income

\$45,000

\$18,000

\$25,000

Assets

\$285,000

\$130,000

\$130,000



“Middle Affluent” Segments

55 to 64 year-olds

	<i>Married (#1)</i>	<i>Single Female(#2)</i>	<i>Single Male(#3)</i>
# households	1.0 Million	0.5 Million	0.3 Million
Avg. Income	\$132,000	\$58,000	\$79,000
Assets	\$1,300,000	\$415,000	\$465,000

65 to 74 year-olds

	<i>Married (#4)</i>	<i>Single Female(#5)</i>	<i>Single Male(#6)</i>
# households	0.6 Million	0.4 Million	0.2 Million
Avg. Income	\$93,000	\$43,000	\$54,000
Assets	\$1,100,000	\$480,000	\$490,000



Exercise 1

Consider the 12 household segments,

What risks do they face?



Managing Post-Retirement Risks

- Risks
 - Longevity, inflation, interest rate, stock market
 - Business risk, employment risk
 - Public policy risks
 - Health related: unexpected health costs, lack of facilities and care-givers, loss of ability to live independently
 - Change in housing needs
 - Death of spouse and other change in marital status
 - Unforeseen needs of family members
 - Bad advice, theft and fraud
- Includes for each risk: Background, predicatability, managing the risks, comments



Exercise 2

- Consider the 12 household segments.
- Home Values = 70% of assets
- Their “Needs”
 - Current
 - Expected
- Volatility
- Planning time horizon
- Debt
- Risk tolerance – propensity to purchase financial products
- (Understanding that this is a gross generalization)

What Long-Term Care financial strategy do we offer? Which makes sense? What chassis – group, individual, combination, public, self and family?



Risk Survey Results

Risk perceptions (see Appendix for data)

- Top concerns – inflation, health, long-term care (order changes but top 3 remains)
- Lot of consistency
- Pre-retirees more concerned than retirees
- Retirees – not much change over time
- Pre-retirees – increase in concern in 2003, but did not last
- Relatively little impact from 2007-2008 downturn

Ongoing expectation of longer work without result

Special area of focus in 2007 – what changes during retirement



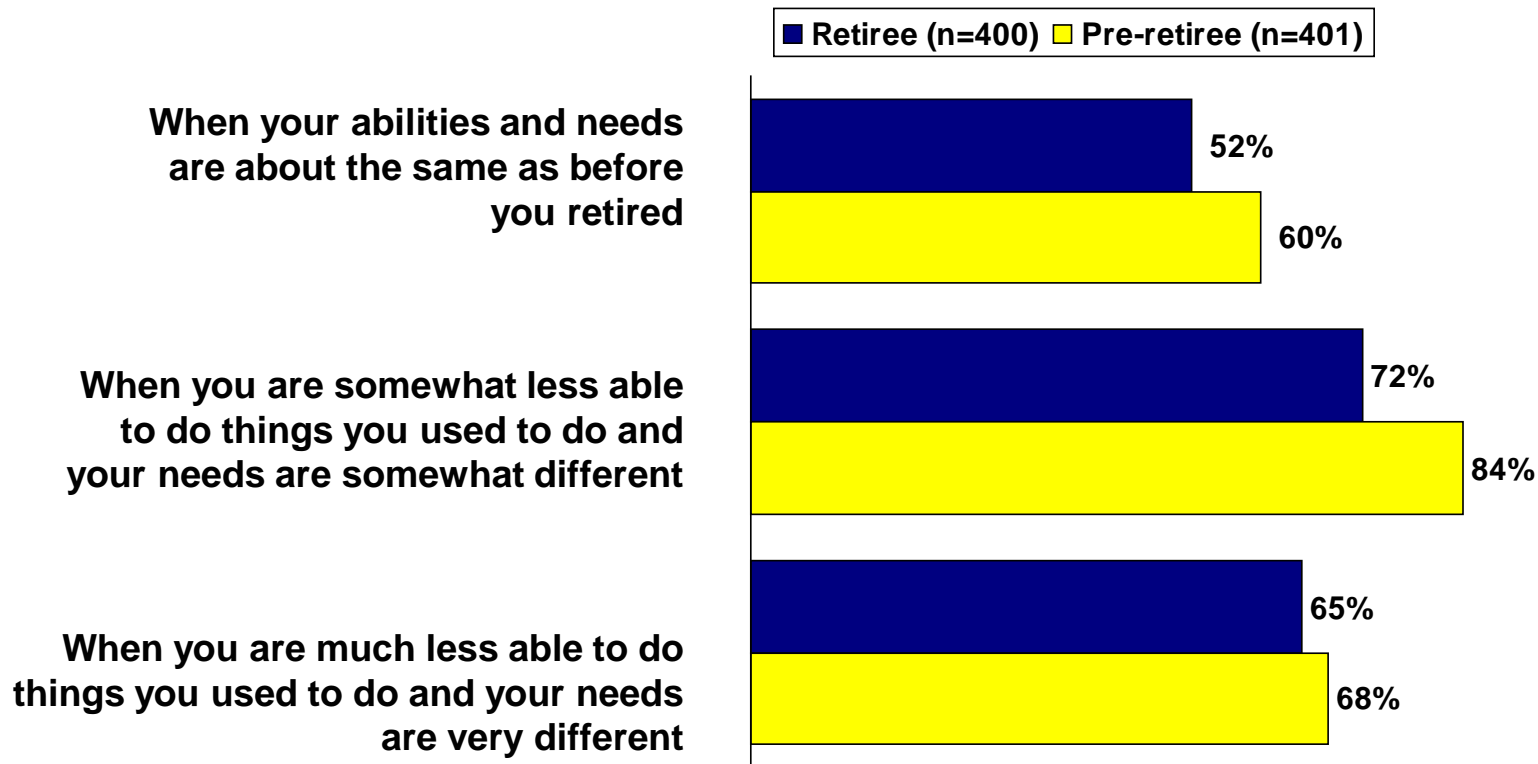
Phases of Retirement

- Can be defined by activity level, working or not working, age, or health status.
- Survey defines phases based on **abilities** and associated needs
 - First phase: no significant change in capabilities
 - Second phase: significant change
 - Third phase: much less able than at present
- Retirement planning often focuses on only first phase.



A majority expect to experience some level of incapacity.

Do you think you will have a time in retirement...?



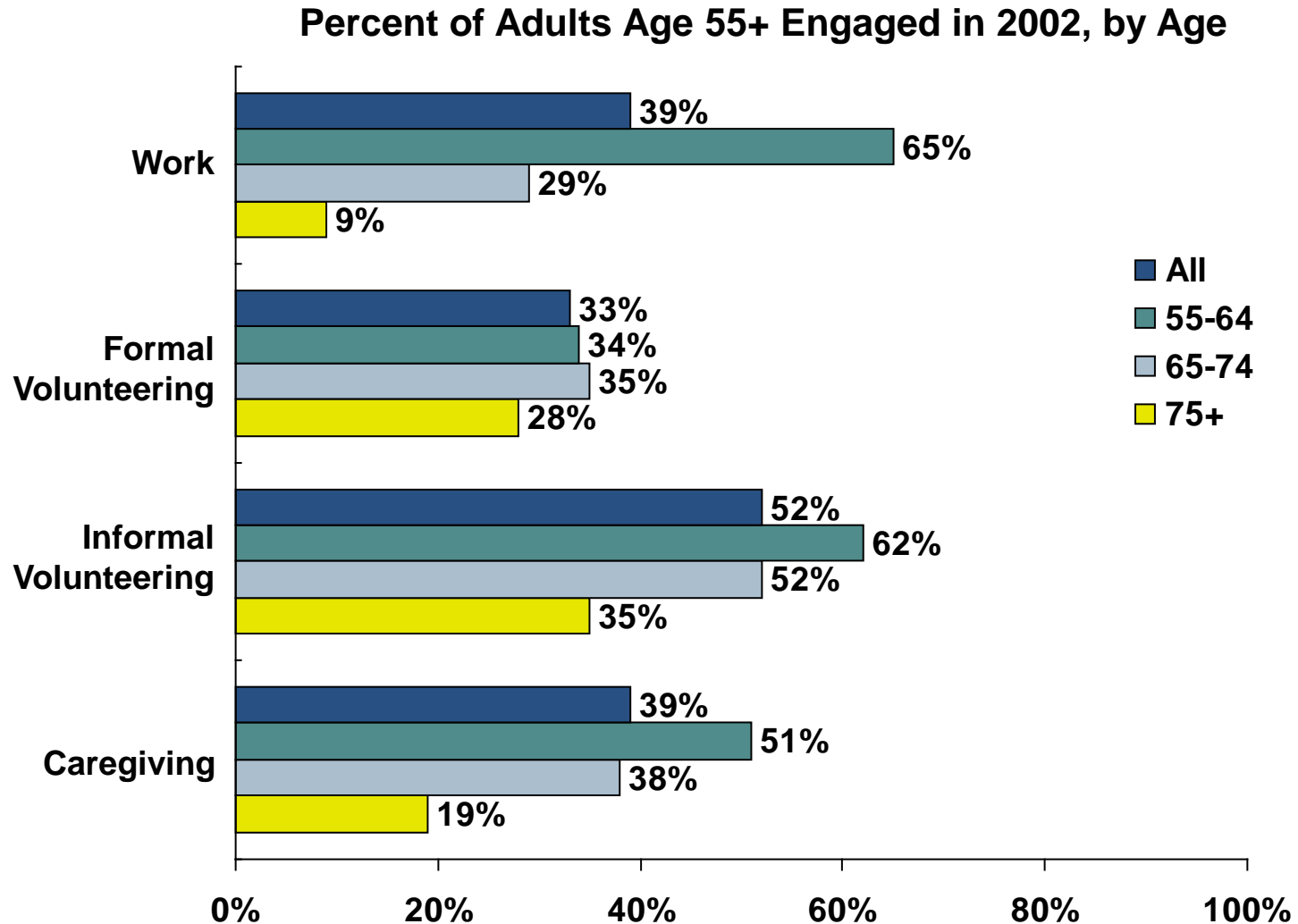


Dependence on family or community services is expected to increase.

I'm going to ask about some ways your needs might change during this time. Do you think you will need...? (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)
To modify your home or move to a home that is more livable	48	56	56	69
To depend on your family or community services for assistance	46	59	64	78
To pay someone to provide assistance	41	46	61	70
Nursing home or home health care	NA	NA	53	63

What older Americans do with their time varies by age...

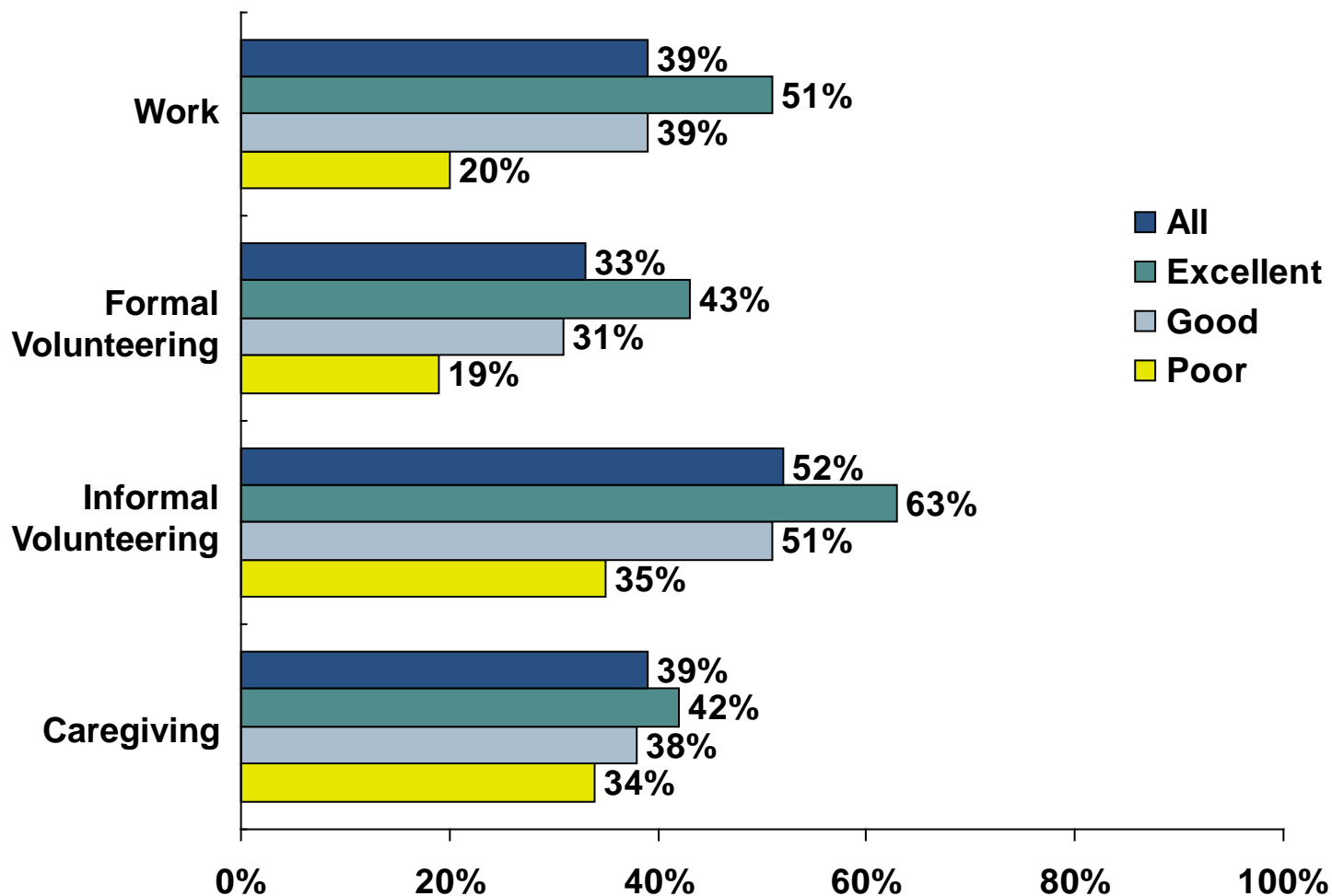


Source: Zedlewski, Sheila R. and Simone G. Schaner. 2005. "Older Adults' Engagement Should Be Recognized and Encouraged." *Perspectives on Productive Aging* No. 1. The Urban Institute: Washington, DC.



...and health status.

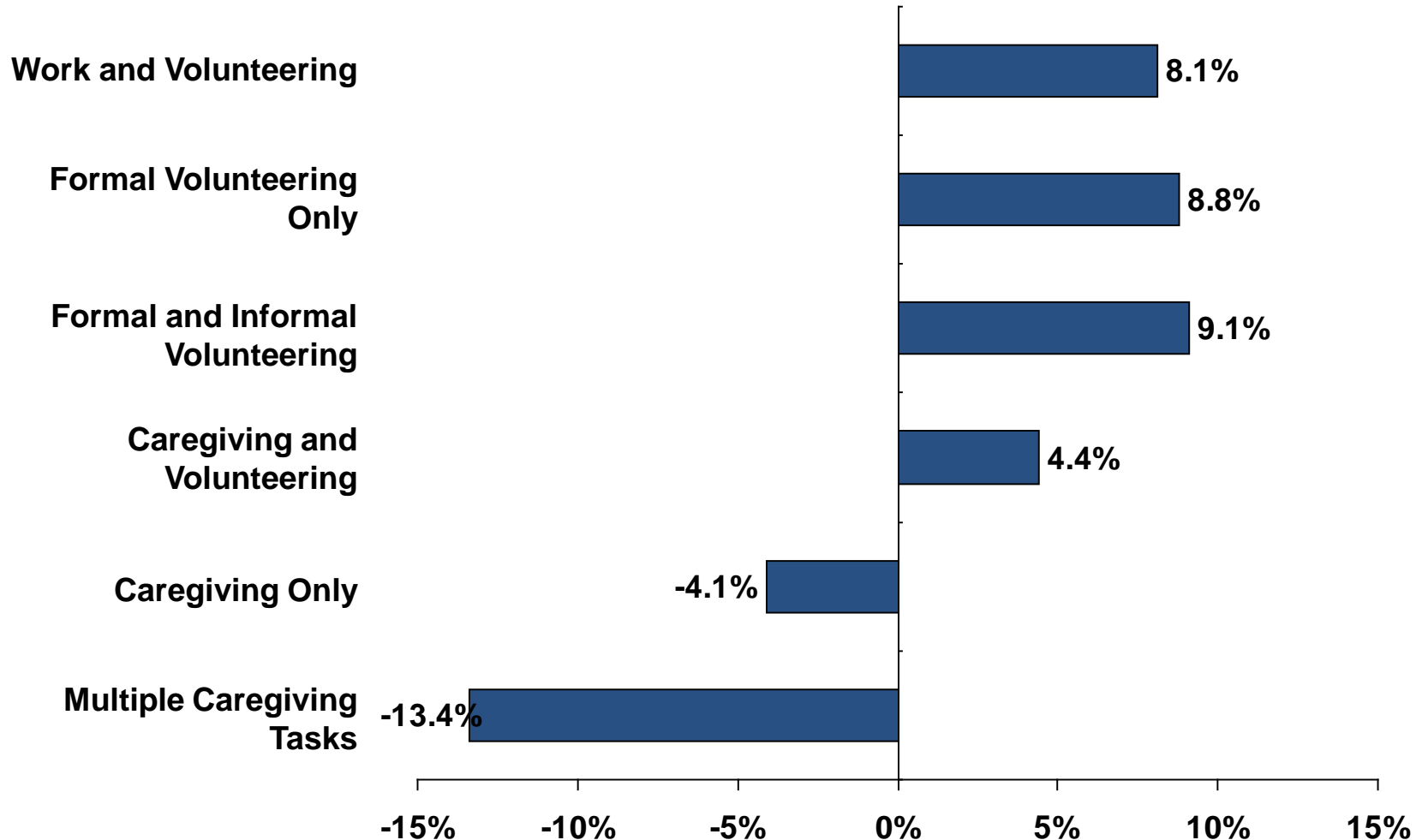
Percent of Adults Age 55+ Engaged in 2002, by Health Status



Source: Calculations by Barbara Butrica of data from the Health and Retirement Study.

However, retirement satisfaction varies by the type of engagement.

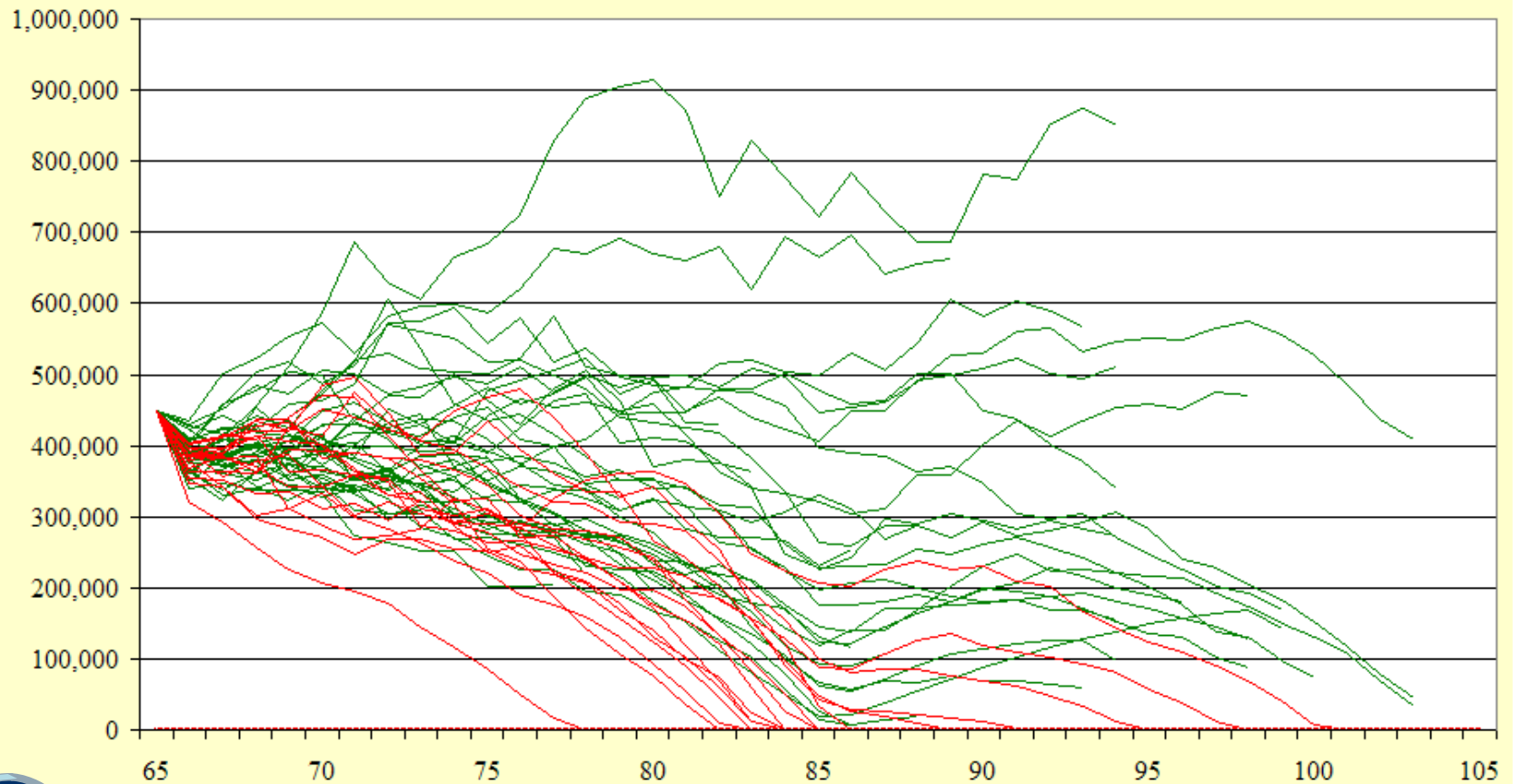
Percentage Point Change in Satisfaction Among Retirees Age 55+ in 2002



Alternate Portfolio - 20 year Deferred Annuity

Account Value Growth Pattern

For Selected Possible Outcomes



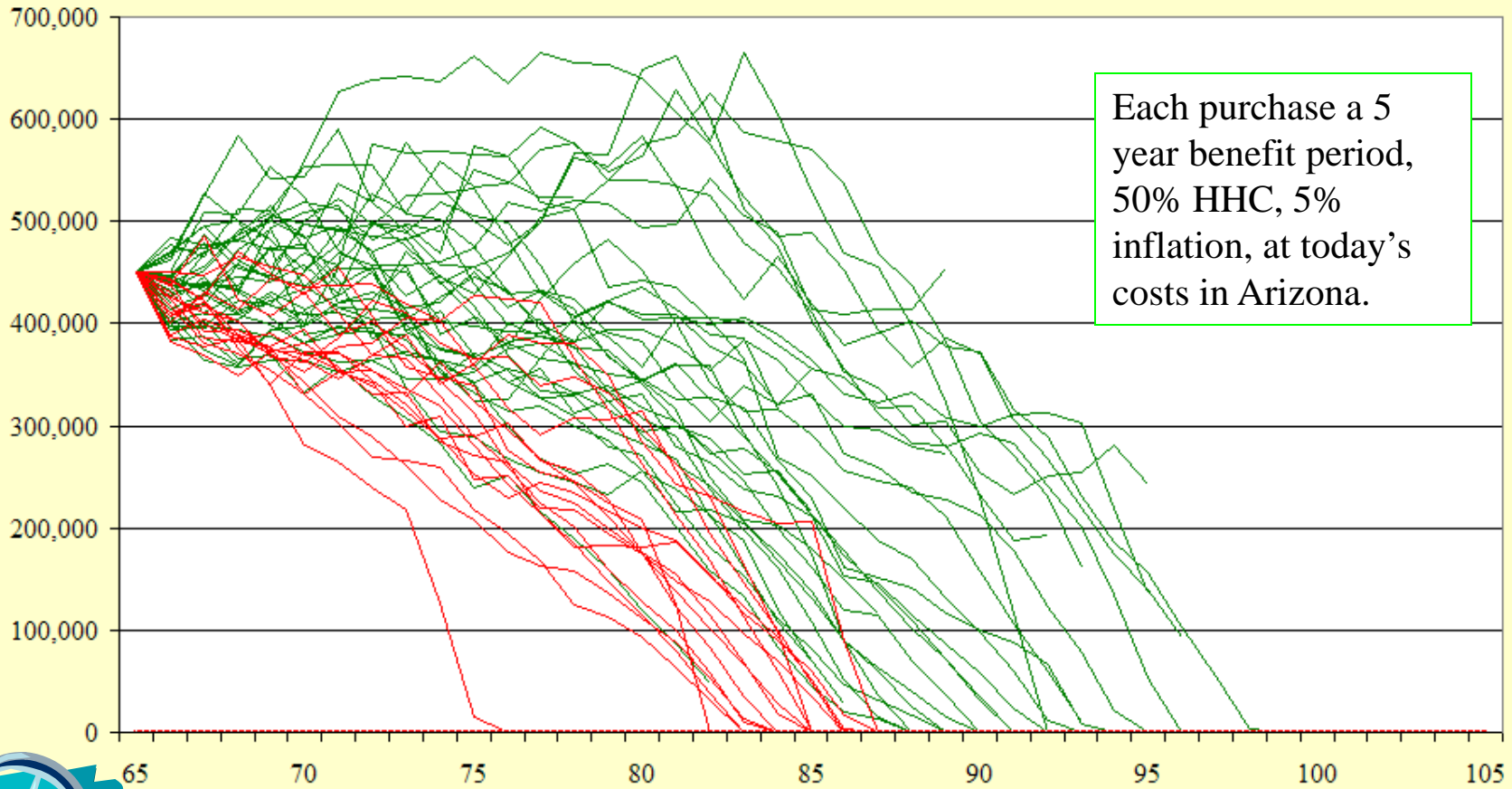
Same couple – purchase of Longevity Insurance, no LTC morbidity.





Sampling of 2,000 Scenarios

Account Value Growth Pattern For Selected Possible Outcomes- With Morbidity and LTCI





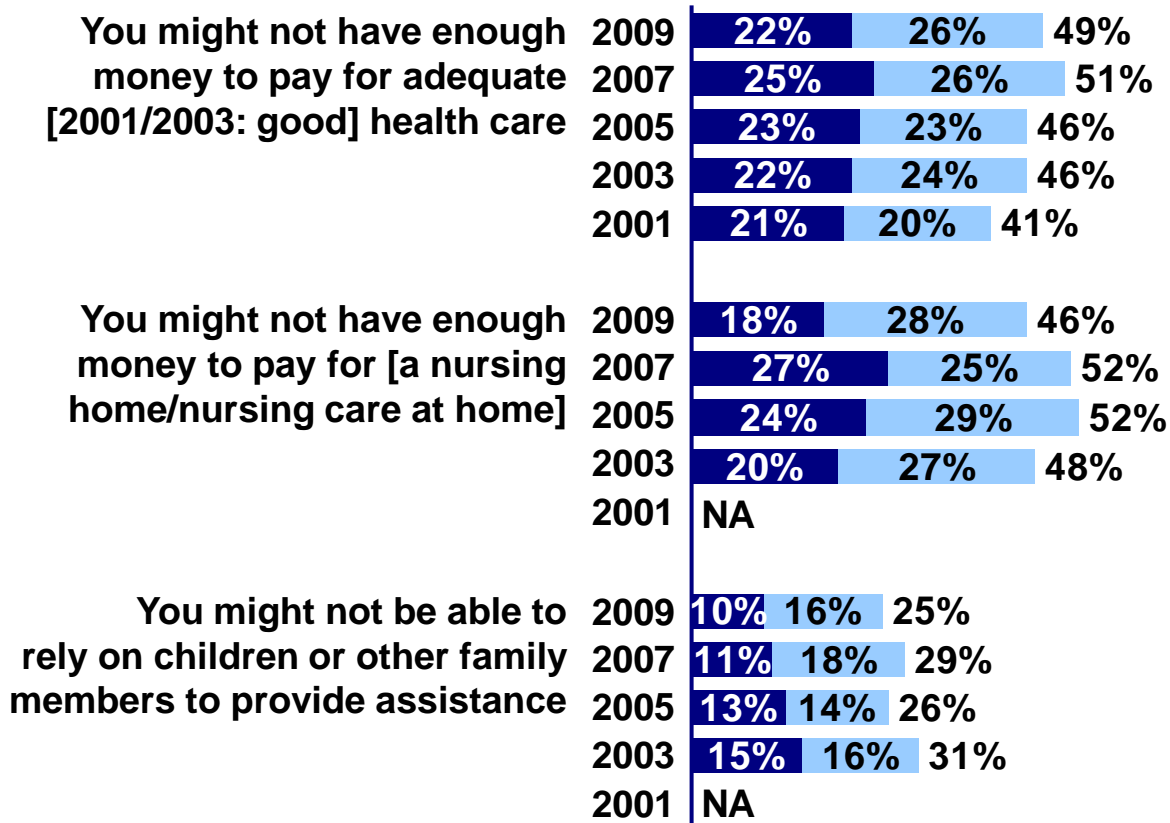
Appendix

- Additional data

Retiree concern about health risk has remained fairly steady.

How concerned are you that...?
(Retirees, 2009 n=401)

■ Very concerned ■ Somewhat concerned

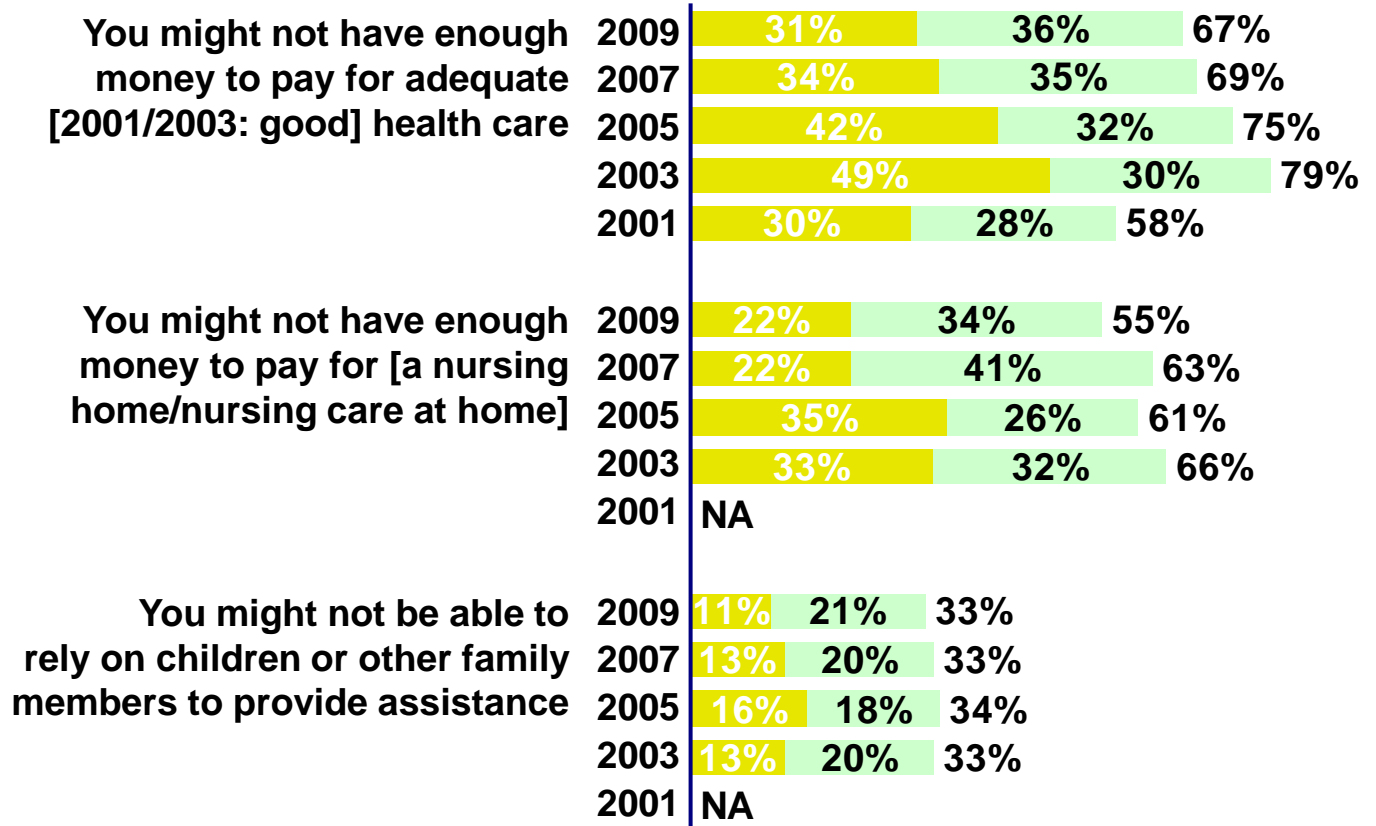


Source: Society of Actuaries, 2001-2009 Risks and Process of Retirement Surveys

Pre-retiree concern about paying for long-term care has decreased.

How concerned are you that ... in retirement?
(Pre-retirees, 2009 n=403)

■ Very concerned ■ Somewhat concerned



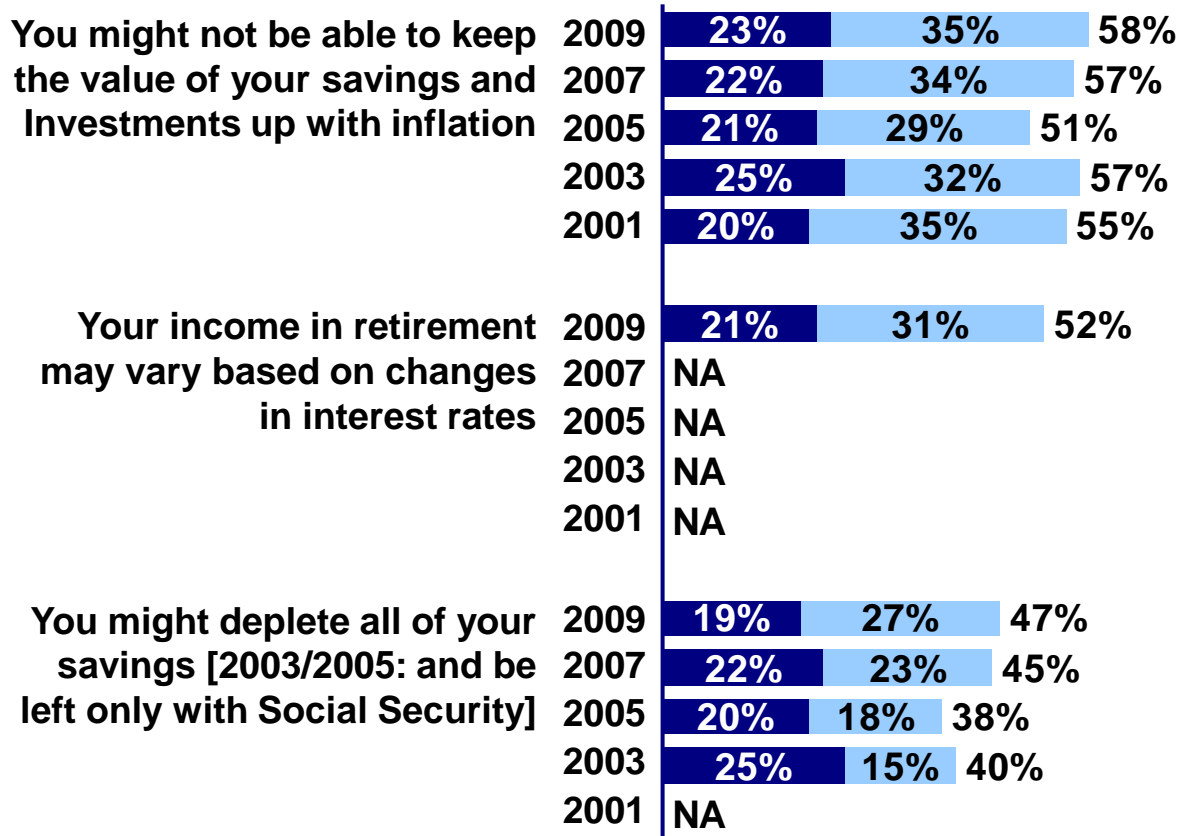
Source: Society of Actuaries, 2001-2009 Risks and Process of Retirement Surveys



Retiree concern about inflation is about the same as in 2007.

How concerned are you that..?
(Retirees, 2009 n=401)

■ Very concerned ■ Somewhat concerned



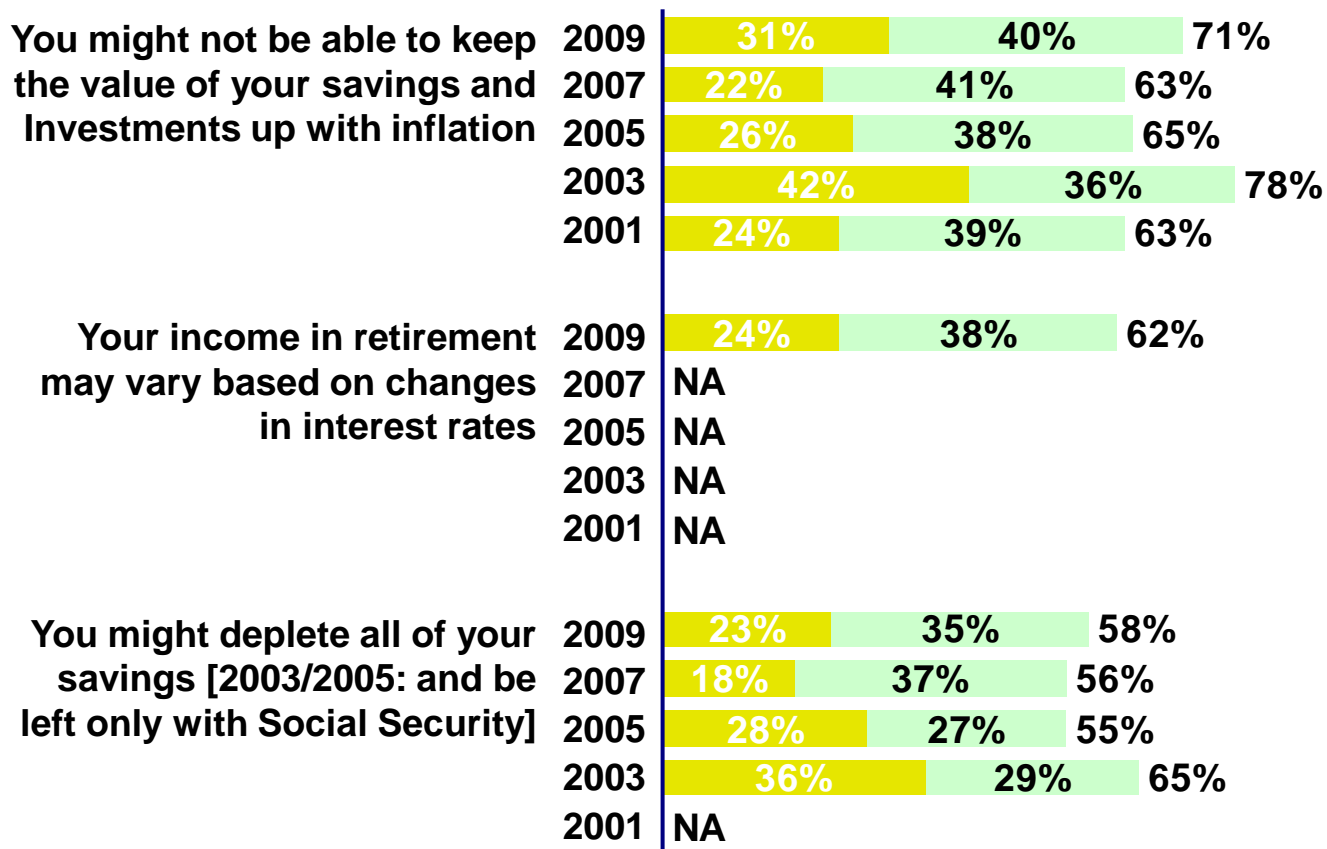
Source: Society of Actuaries, 2001-2009 Risks and Process of Retirement Surveys



But pre-retiree concern about inflation has increased.

How concerned are you that ... in retirement?
(Pre-retirees, 2009 n=403)

■ Very concerned ■ Somewhat concerned



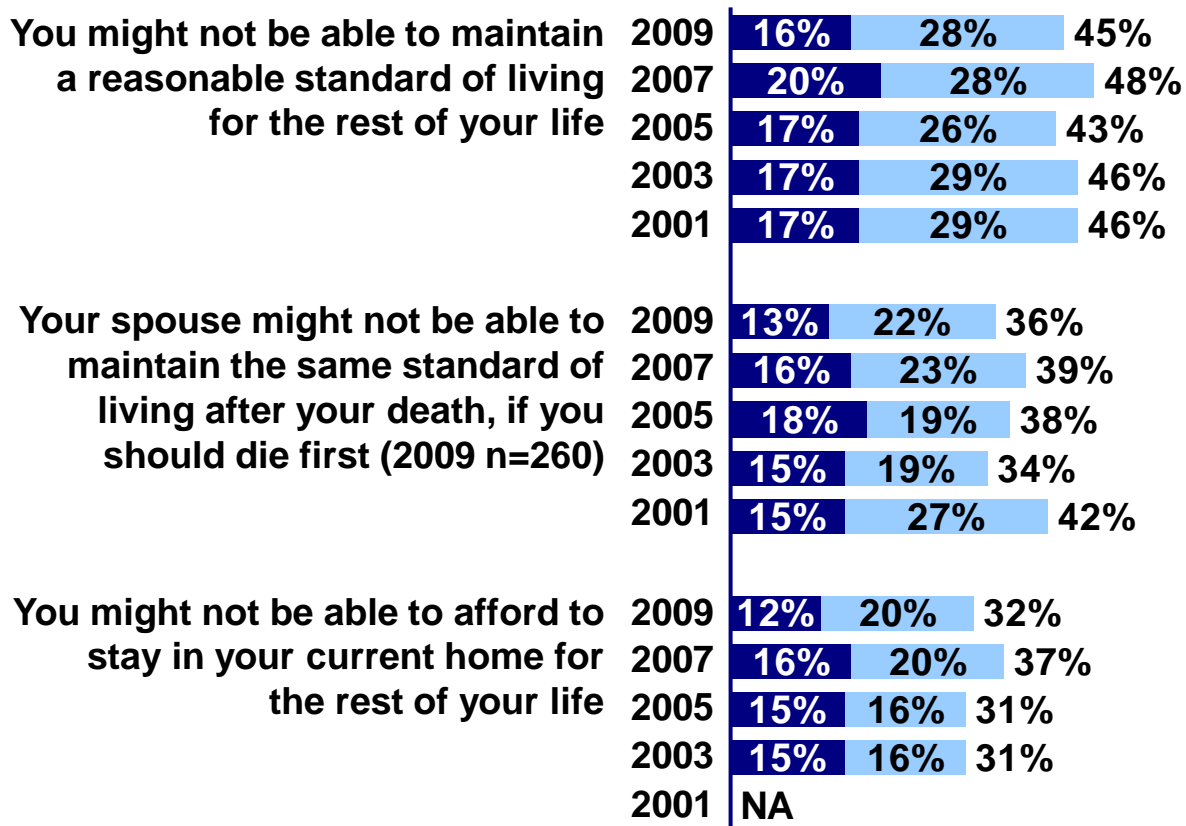
Source: Society of Actuaries, 2001-2009 Risks and Process of Retirement Surveys



Retiree concern about maintaining lifestyle is unchanged.

How concerned are you that...?
(Retirees, 2009 n=401)

■ Very concerned ■ Somewhat concerned



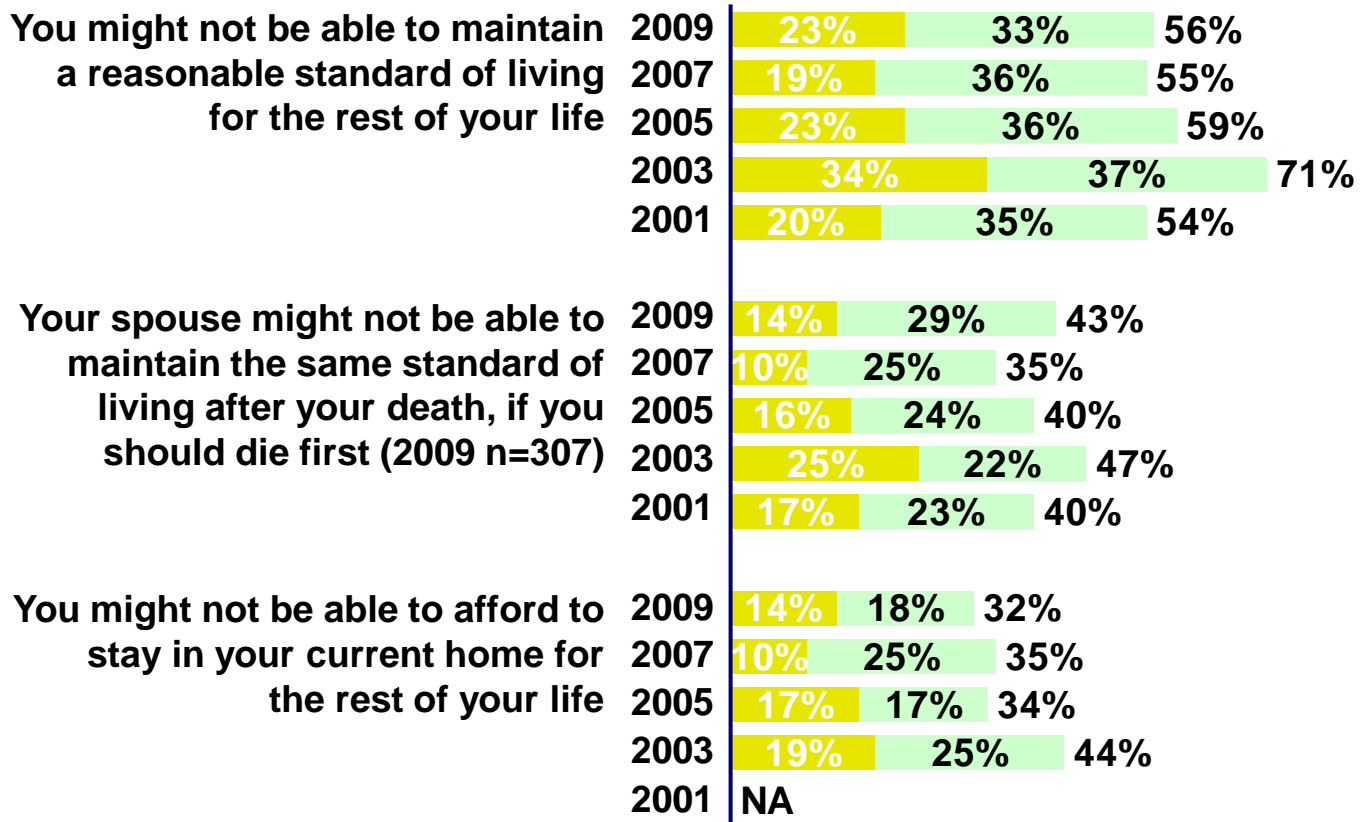
Source: Society of Actuaries, 2001-2009 Risks and Process of Retirement Surveys



Yet pre-retiree concern for spouse's lifestyle has increased.

How concerned are you that ... in retirement?
(Pre-retirees, 2009 n=403)

■ Very concerned ■ Somewhat concerned

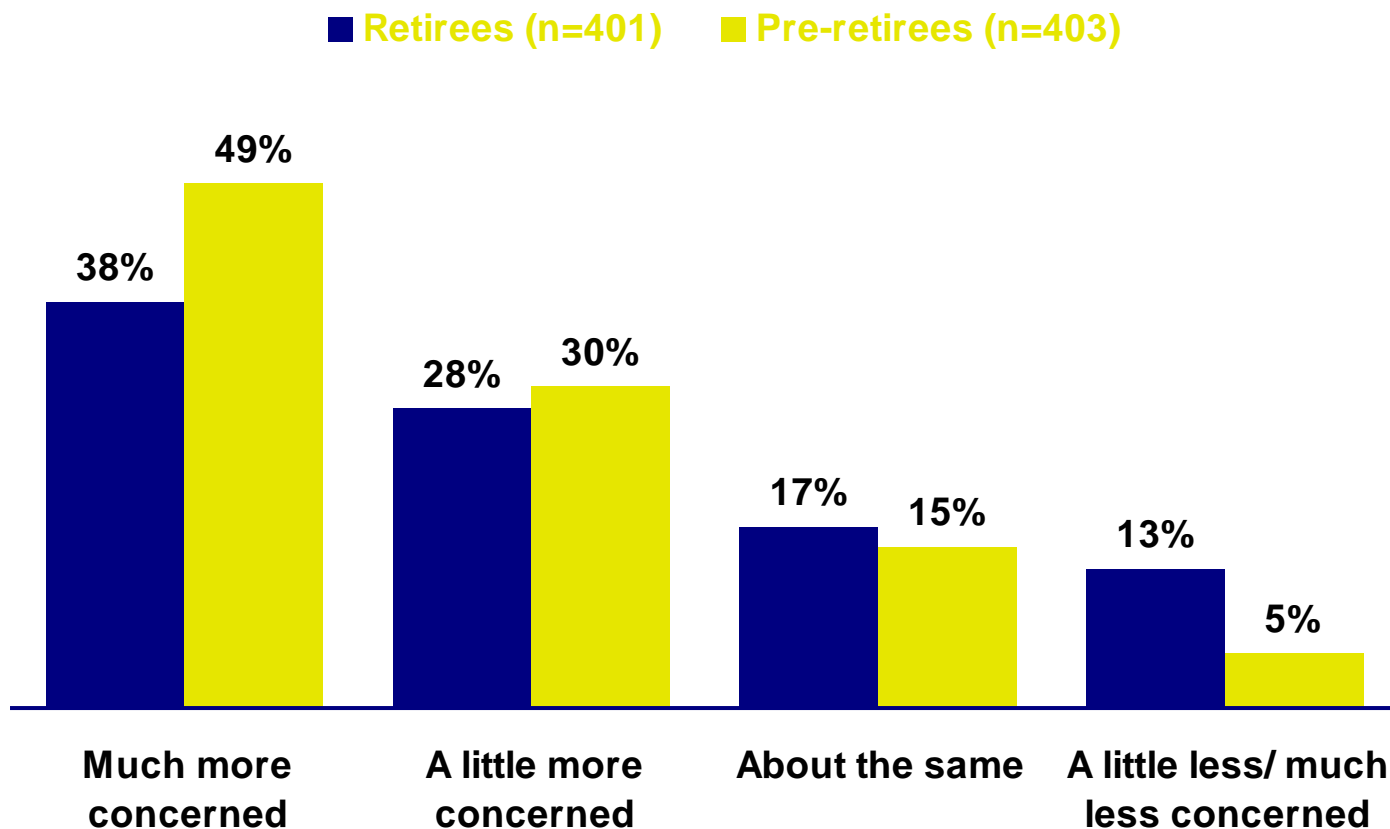


Source: Society of Actuaries, 2001-2009 Risks and Process of Retirement Surveys



Both retirees and pre-retirees say they are now more concerned.

How much has the recent stock market and economic downturn affected your financial concerns (about retirement)? Are you now...?



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



Timing of Retirement

- History
 - Long-term trend toward earlier retirement
 - Recently some turnaround
- When do people plan to retire?
 - Later
 - Often it does not work out because of premature retirement risk
- What do they think about impact of retiring later?
- How do spouses link retirement timing?
- New focus on link of “signals” to retirement timing
 - Focus of Retirement 2020 (2008)



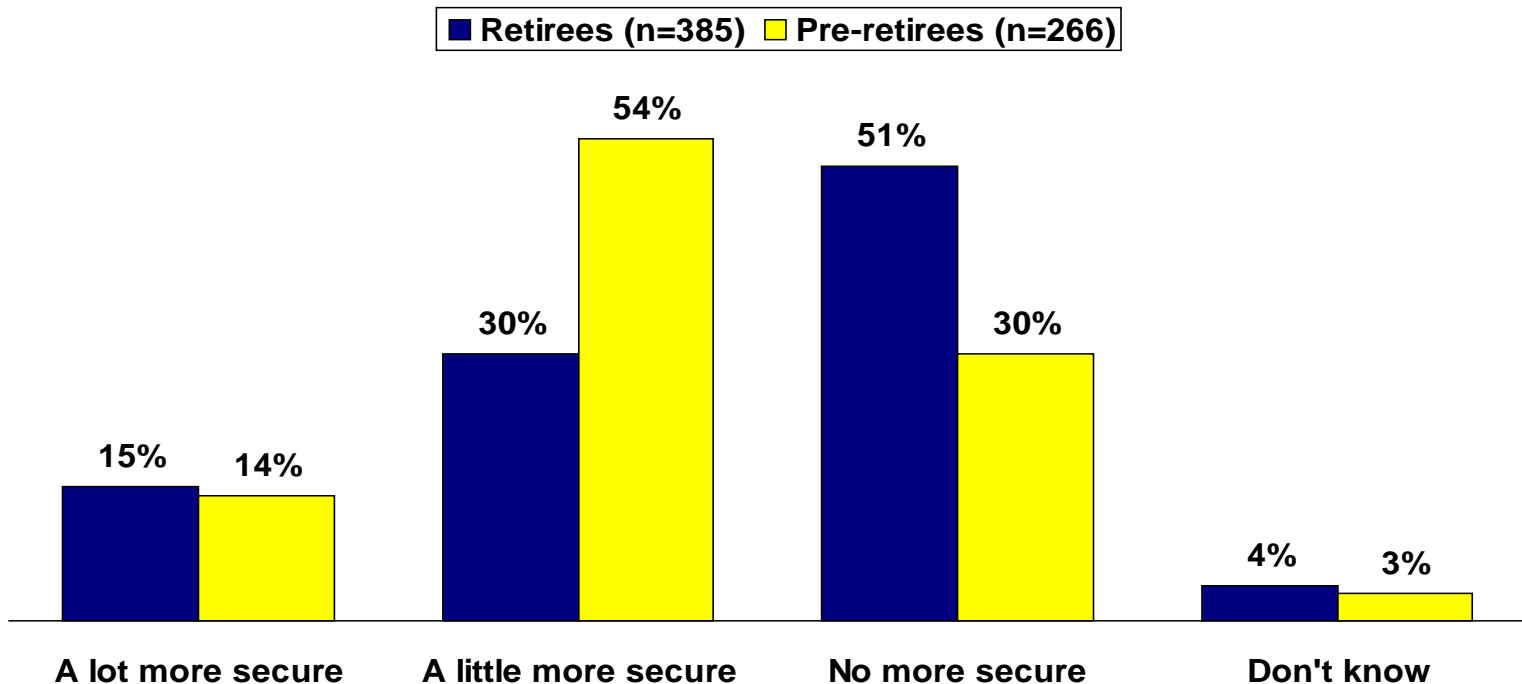
Pre-retirees expect to retire later than retirees, 1 in 3 say it doesn't apply.

How old were you when you retired or began to retire from your primary occupation?/At what age do you expect to retire from your primary occupation?

Age category	Retirees (%) (n=400)	Pre-retirees (%) (n=401)
Under age 55	31	1
55 to 61	30	16
62 to 64	16	12
65 to 69	13	27
70 or older	4	6
Will not retire	1	1
Doesn't apply	3	32
Don't know	2	6

Pre-retirees think delaying retirement would increase their security.

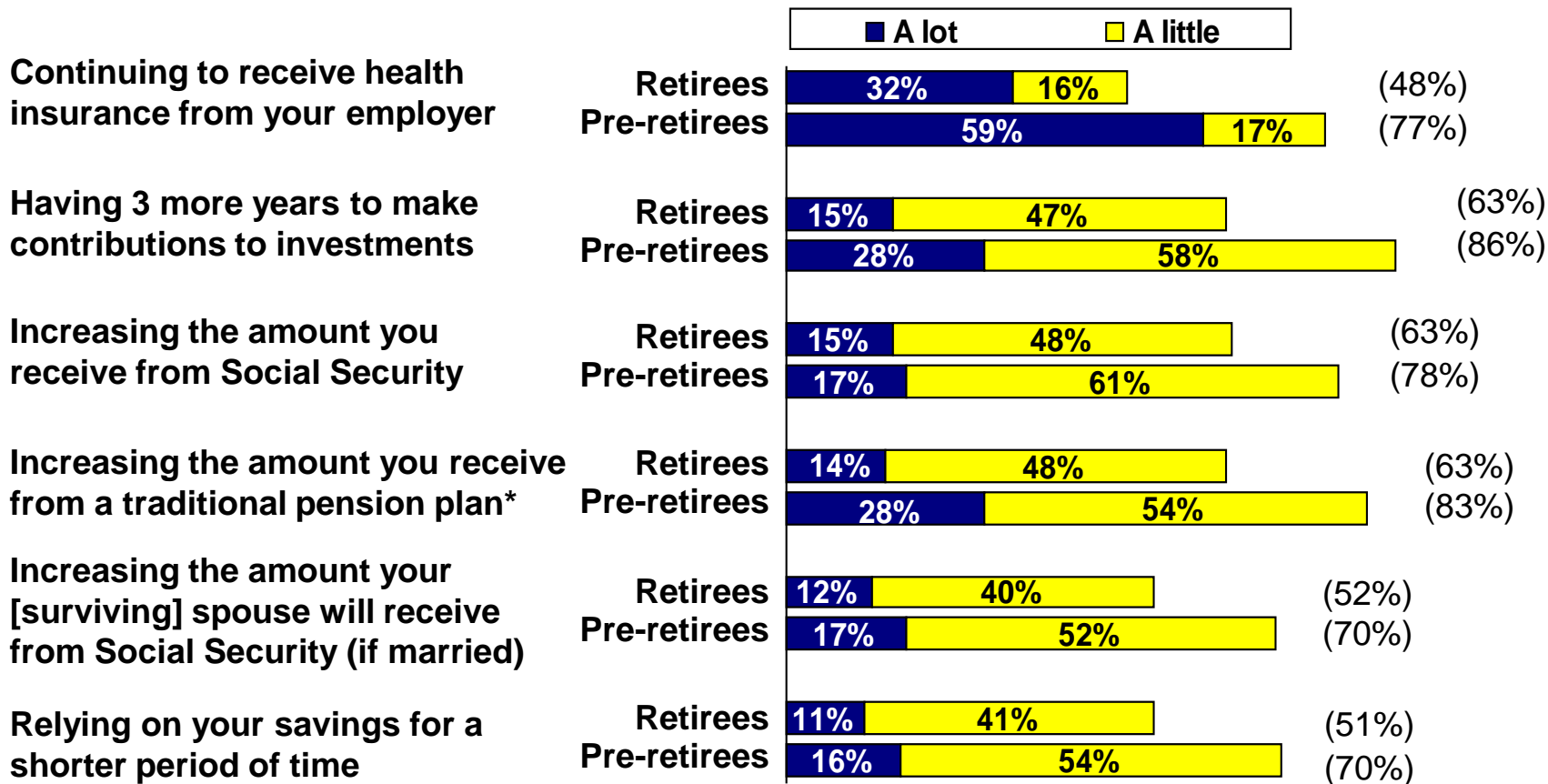
Suppose you had retired three years later than you actually did/Suppose you were to retire three years later than you are currently planning. Do you think this would make your retirement financially...? (Among those providing retirement age from primary occupation)





A lot of the added security comes from continuing employer health.

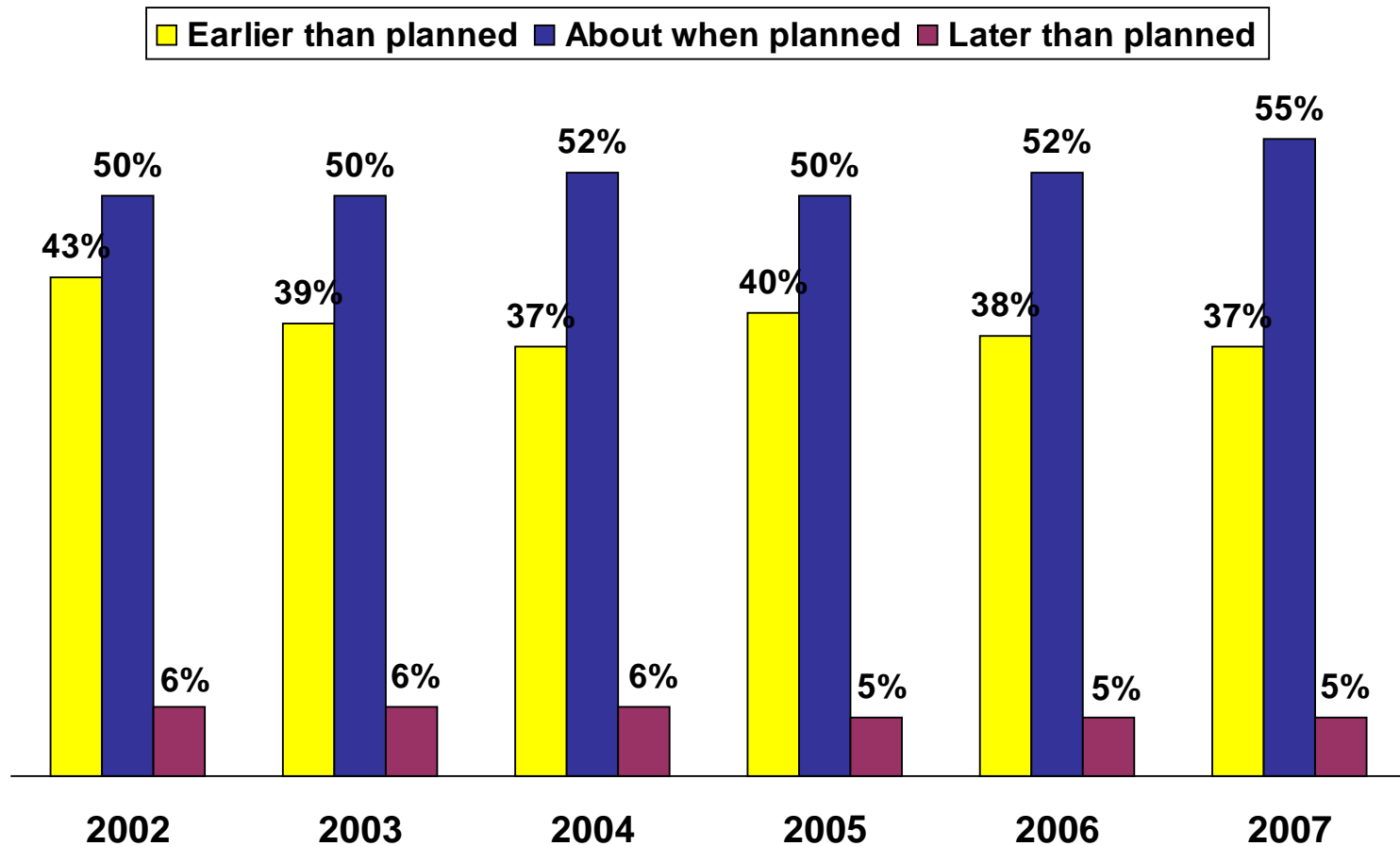
How much, if at all, would each of the following have increased your financial security in retirement [if you retired three years later]? (Among those providing retirement age from primary occupation; Retirees n=385; Pre-retirees n=266)



*Retirees n=242; Pre-retirees n=207

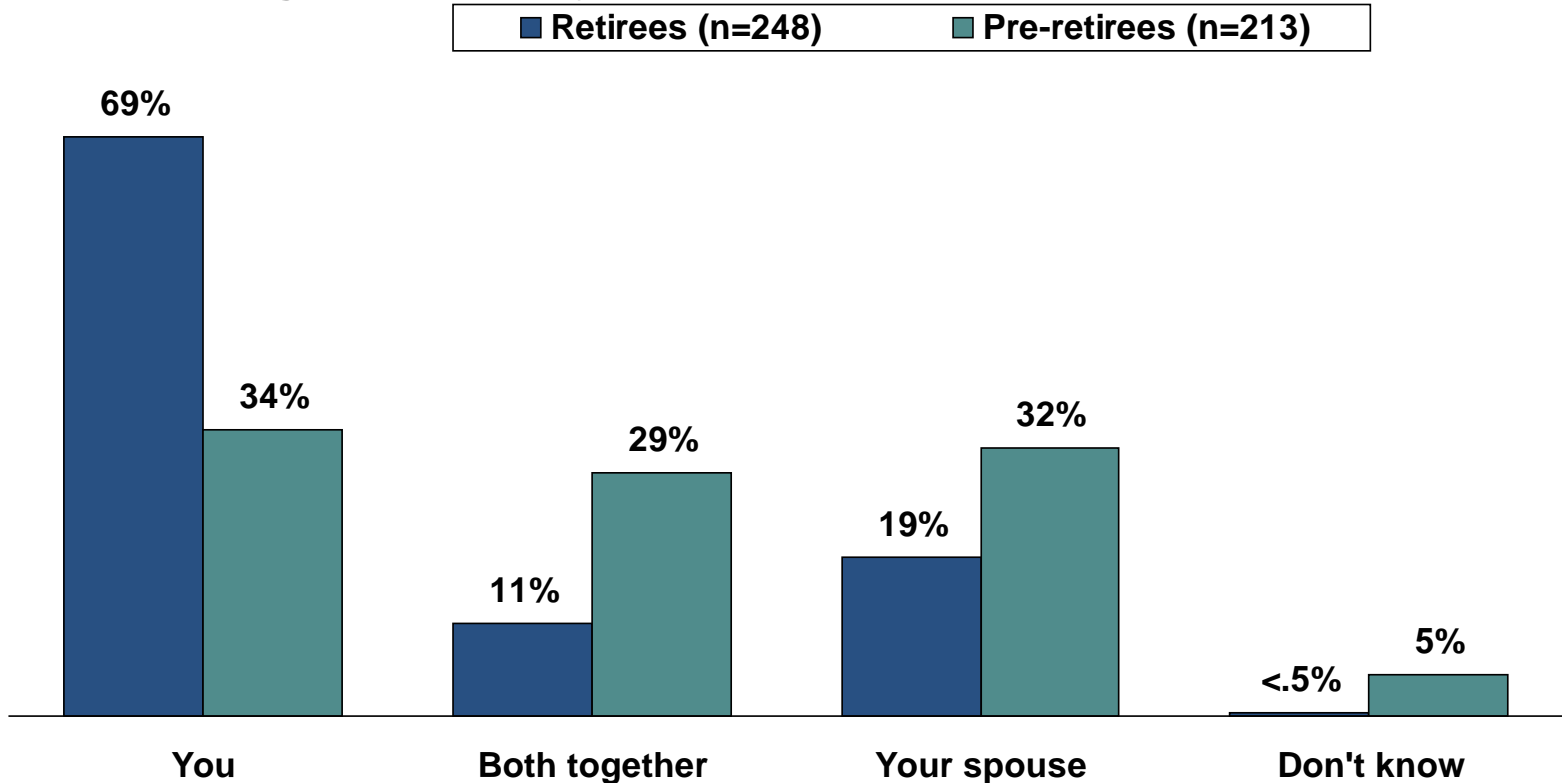
Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

Many may be ignoring the possibility of involuntary early retirement.



Few retire at the same time as their spouse.

Who retired/will retire first? You, your spouse, or will you and your spouse retire together? (Among married retirees and pre-retirees providing retirement age from primary occupation)





How people retire

- People expect to retire later, but so far few do
- Many retire before they planned to
- Phased retirement already exists informally
 - 30% of retirees worked for pay in last year
 - Will likely increase in the future
- 2005 survey looked at working retirees and their work
 - 1 in 3 continued to work for same company as before retirement
 - Majority used skills from primary occupation
- Few retire at same time as their spouses



ANNA RAPPAPORT CONSULTING

STRATEGIES FOR A SECURE RETIREMENTSM

anna@annarappaport.com

Phone: 312-642-4720

Fax: 312-642-4330