



Article from

**Retirement Section News**

February 2018

Issue 94

# Perspectives from Anna

## 20 Years of Post-Retirement Risk Research: Some Learnings and Observations

By Anna M. Rappaport

**T**he SOA started a specific focus on post-retirement needs and risks 20 years ago. It was also 20 years ago in 1997 when I took office as president of the SOA. During that year, I encouraged more focus on the aging society, and I have been working on these issues ever since. The focus of the Committee on Post-Retirement Needs and Risks (CPRNR) work is the individual, and the primary focus is on middle-income Americans.<sup>1</sup>

This column will focus on some highlights, experiences and interesting findings from the work. As the work progressed over the years, we learned a lot as a group, and that produced new ideas for topics to pursue. The topics “built” upon each other and fed into a variety of different projects.

### A VARIETY OF PROJECTS AND PARTNERS

The CPRNR has conducted a survey of public perceptions of post-retirement risk every two years from 2001 to 2017. While there are many organizations that have looked at the public’s knowledge and attitudes about retirement and retirement planning, the SOA studies have been different because the SOA has focused on the post-retirement period. The SOA surveys include repeated core topics and topics of special emphasis, which vary from study to study.

The SOA has also conducted focus groups and in-depth interviews with retirees at various points during retirement, with the most recent step in this process being a focus in 2017 on individuals over age 85. That study is discussed later in this article. The results from these studies in the aggregate, together with the risk survey, provide a picture that moves through the retirement period.

2017 is the third year that the SOA has issued a call for essays. The 2016 topic was financial wellness,<sup>2</sup> and those essays were presented at the 2017 annual meeting. The 2015 topic was diverse risks.<sup>3</sup> There have also been several calls for papers.

The committee has also focused on consumer education, producing several different types of materials. Some of these materials are discussed later in this article. The CPRNR has also sponsored a variety of research reports.

The ideas of interest have fed into the various types of projects. We have tried to fit the project type to what would be most effective to the idea. (I have bolded some of the words that reflect the ideas being pursued.)

During the period of the CPRNR’s work, we partnered or worked jointly with a number of organizations, including the Stanford Center on Longevity, EBRI, LIMRA, WISER, INFRE, FPA, Financial Finesse, the Social Security Administration, and the MetLife Mature Market Institute. The project teams are usually a mix of actuaries and other professionals, and the involvement of multidisciplinary teams has added a great deal to the projects.

Scott Page gave the keynote speech at the 2017 Annual Meeting & Exhibit presidential luncheon. He focused on diversity and the value created by having work teams that offer diverse ideas. The CPRNR has been applying these ideas to its work teams. People who have worked on CPRNR projects have experienced how people with different backgrounds approach issues differently, and can produce a more interesting result than a team where everyone has the same background. Diversity can be defined by personal traits such as ethnicity, by type of educational background and by type of employment. The teams have included demographers, economists, attorneys, public policy experts and others, as well as actuaries. Members of the group are employed in consulting, the financial services industry, government, academia, professional associations, and as financial advisors, etc.

### RESEARCH ON LONGER-TERM RETIREES

**Longevity** risk is a major concern of the CPRNR. We are also concerned about the **impact of shocks** and **how well people are doing later in life**, particularly since many reach retirement age with fewer resources than experts feel are needed to maintain living standards.

In 2017, the CPRNR focused on age 85-and-over individuals. In-depth interviews were completed with individuals age 85-and-over and adult children of age 85-and-over individuals in the United States and Canada. The report on the interviews is available on [soa.org](http://soa.org).<sup>4</sup> There were many similarities between individuals in the United States and Canada, but there are some



key differences. The market for long-term care services is quite different in Canada and the services are less expensive. Health care financing is also very different in the two countries, but for the age 85-and-over individuals, there did not seem to be many other major differences. The retirees in both countries relied heavily on the public programs and had most of their acute care covered by these programs as well as supplemental insurance.

Two recent articles—one from The Conference Board Human Capital Exchange<sup>5</sup> and one from *Forbes*<sup>6</sup>—offer information about the study for employers sponsoring benefits and for individuals planning for their future.

This research followed up on focus groups<sup>7</sup> conducted in 2015 with individuals retired 15 years or more. When taken together, the two sets of research offer some very interesting observations:

- People's preferences and actions do not fit traditional planning paradigms.
- Many of the retirees seem quite able to adjust to many different circumstances, and dealt with a variety of circumstances with flexibility and resilience. They spend significantly less than they did earlier in retirement.
- Financial management is most often short-term cash flow management focused. Many of the retirees try to avoid spending down assets and withdraw only the required minimum distribution from tax-deferred retirement accounts. They adjust their spending to their income as much as possible.
- The majority are not prepared for a major long-term event—requiring assisted living, nursing home care or a lot of paid care at home. These events can easily lead to spending down of assets.

- While family is often not included in planning, when people need help at high ages, the first source of help usually comes from family members. Where there is no spouse, adult children are the next source of help. Women are more likely to be alone in old age and less likely to have a family member to help them.

This work encourages us to think more about long-term planning and identifying needs for success at higher ages. The age 85-and-over interviews are being followed up by two surveys, one of individuals age 85-and-over and one of children. Those results should be available early in 2018.

#### NEXT STEPS FOR THE 2017 RISK SURVEY

Every two years, the CPRNR sponsors a survey of public perceptions of post-retirement risk. The preliminary results of the 2017 survey were presented at the 2017 SOA Annual Meeting & Exhibit. The survey included repeated core questions and three topics of special interest: **housing, long-term care and caregiving**, and **financial wellness**. Reports on the topics of special interest are coming in 2018, and these reports will include some findings from the interview study with age 85-and-over individuals.

#### THE BIGGEST DECISIONS FOR MANY MIDDLE-INCOME PEOPLE

The CPRNR studied the middle-income retired and near retired population over the past decade. In its initial Segmenting the Middle Market report,<sup>8</sup> the CPRNR learned that middle-income families at these age groups had **substantially more housing equity than financial wealth**. Many individuals had very little financial wealth, and single people were much less well-off than couples.

The findings of this work changed the way I thought about retirement planning and decisions. I came to realize that many people approach and reach retirement without many financial assets, and discussions about how to invest their money were not relevant to these individuals. It also became clear that major issues for these people included **when to retire** and **when to claim Social Security**. Social Security is the major, and sometimes only, source of income for many retired households. The amount of monthly income is 75 percent greater if benefits start at age 70 versus the initial claiming age of 62. When people reach their 60s without much in the way of retirement assets, **working longer** can make a big difference in what resources they will have in retirement and in how long the resources need to last.

Most families do not want to use their home equity to help finance retirement, but at the same time, it may be an asset that they can use to help pay for long-term care or other emergencies.

This research made me realize that all of these issues needed to be considered in retirement planning, and that savings and investments are just a part of the story. I also came to realize that as decisions are made, it is important to remember that there are people without assets who will also be making such decisions.

Concern over whether middle-income Americans had the information they needed to make good retirement decisions led the CPRNR to venture into producing information for consumers, including employees covered by benefit plans. The CPRNR produced a series of 12 decision briefs<sup>9</sup> to help people nearing retirement understand the issues involved in making retirement decisions. Six of these briefs were updated in 2017. Supplementing these briefs are some infographics<sup>10</sup> to help with understanding longevity. The CPRNR is also partnering with Financial Finesse to offer retirement literacy publications. The second, *Retirement Health and Happiness*,<sup>11</sup> reminds people that retirement is about more than money. It offers practical tips and access to resources. Actuaries are encouraged to share these materials with co-workers, friends, family, and community groups.

## HOW ADVICE AND FINANCIAL WELLNESS FITS IN

A variety of studies, including SOA research, documents gaps in financial literacy. When we started the post-retirement risk research, I believed that most of the CPRNR would have said that thinking about advice and sources of advice was outside of the scope of what we would be doing. But retirement planning involves many issues and calculations and is complex. **Decisions involve trade-offs** and some are time sensitive. Discussions of issues frequently end with “consult your personal advisor” or a similar comment. And everyone has specific circumstances that should be considered.

While there is a large financial advice industry, many middle-income Americans do not get retirement planning advice or guidance beyond what is provided through their employers. And the advice industry is diverse, with some practitioners paid a fee for advice and others primarily earning commissions for selling financial products and services. Some practitioners are **fiduciaries** and some are not, and **conflicts of interest** have been an issue. Evidence of conflicts as well as a discussion of the different models for providing advice was presented at the 2012 Pension Research Council symposium on the market for retirement financial advice. These issues were discussed in my perspectives article in the September 2012 *Pension Section News*, “Perspectives from Anna: Retirement and Financial Advice—What I Heard at Two Recent Meetings.” They are also discussed extensively in the 2012 Working Papers<sup>12</sup> from the Pension Research Council.

With so many decisions being required when defined contribution benefits are the principal retirement benefit, advice is important in helping people plan for retirement. Several years

ago, the CPRNR chose advice as one of the topics on which it would focus. This led to two projects in 2014 and 2015:

- A paper on retirement advice, “Models of Financial Advice for Retirement Plans: Considerations for Plan Sponsors,”<sup>13</sup> and
- “Investment and Retirement Advice—A Guide for Employers.”<sup>14</sup>

This work incorporates a number of ideas. There are many **different things that employers can do to help employees make better decisions** and that influence the decisions employees make. The guide views these actions broadly by defining a spectrum that includes education, plan design features, communication and the provision of guidance and advice to employees, both online and one-on-one. Facilitating employee savings and helping employees do a better job with their investments are seen as critically important.

Many employers have moved from programs that focused on retirement education and savings to a broader focus on **financial wellness**. With the large number of employees facing financial stress and having trouble paying regular bills, having problems managing debt, and using high cost types of debt, employers recognized that it was an important business imperative to help employees meet some of these challenges. Employers also increasingly recognize that employees will not save effectively for retirement until these problems are addressed. The CPRNR selected financial wellness as one of its topics of focus in 2016 and also issued a call for essays on that topic. The essay collection<sup>15</sup> is available on the Aging and Post-Retirement website; the prize-winning essays were published in the *Pension Section News* in 2017, and the essays were presented at the 2017 SOA Annual Meeting. Financial wellness is one of the special topics in the 2017 Survey of Post-Retirement Risks.

## SOFTWARE AND SUPPORT FOR RETIREMENT DECISIONS

We will now take a detour to an early point in the quest for ideas and support for retirement planning. **Calculations of retirement security require software** and/or assistance for support. When advice is provided, the advice generally depends on software, used directly or by an advisor. When software is not available, the individuals need advice from a professional for these calculations. It is confusing to users. There are many pieces of software available, designed to respond to different questions and with varying degrees of reliability. The user may have difficulty determining what is reliable and may not even know if the software focuses on the right questions or which questions need to be asked. The CPRNR has identified the importance of software and wanted to understand how it influenced the treatment of post-retirement risks.

The SOA completed two studies of how post-retirement risks were treated by retirement planning software. In the first study, a variety of case studies were run through a selected sample of software. Some of the software was designed for use by individuals and some for use by professionals. The study showed large variation in the results for the same calculation, and also large variation in capability and quality control. Individual circumstances vary and the ability of software to consider specific circumstances varies as well. The second study was set up differently, but it found a variety of problems with the software it reviewed. For example, there were big differences in the way Social Security benefits were calculated, and some of the calculations failed to recognize individual circumstances. But for average Americans, Social Security is their major source of income. The software research reports are available on [soa.org](http://soa.org).<sup>16</sup>

**Assumptions** about age at retirement, the length of life, investment returns, inflation, levels of withdrawals from plan assets, method of withdrawal, etc. are extremely important to long-term calculations of post-retirement security. Some software includes the post-retirement period and some goes only to the point of retirement. Savings rates, investment return and investment returns are critical to the pre-retirement calculation. Some software builds in assumptions and some have the user specify assumptions. In either case, this is not an easy matter. Software varies in whether it does reasonable checks and provides warnings when assumptions seem strange.

With so many decisions being required when defined contribution benefits are the principal retirement benefit, advice is important in helping people plan for retirement.

Although there were several years between the first and second studies, it did not seem that things had improved much. There is concern that the same issues are probably relevant today.

Software can come from individuals who are sharing what they do, financial services companies, government agencies, benefit plan administrators and software companies. There is no governmental or private service that provides any “seal of reliability” on such software. There is no licensing or regulation of the software providers. One of the services that plan sponsors can provide to their employees is helping them identify good tools to understand their particular situation. As more employers are sponsoring financial wellness programs, this makes sense.



But one of the concerns expressed by plan sponsors I have talked with is that they also have no way to know which tools are reliable. There is a critical need for an organization that is in a position to comment on specific software and who can name the source to review and comment on such software. Ideally it could certify that software meets a defined standard and possibly offer an “underwriters laboratory”-type seal of approval.

### GETTING READY FOR NEW PROJECTS IN 2018

The CPRNR changed its planning cycle and met in September to select topics to explore for 2018. **Tools**, building on the concerns about software, is again on the agenda for 2018.

**The family and its role in retirement security** is another topic for potential study. The post-85 interviews told us that while many people do not include the family in their retirement planning, it is often the first place that people turn to when they need help. The financial wellness essays included an essay on the family. There was also a joint project several years ago with the MetLife Mature Market Institute on the New American Family. That survey looked at how different types of families thought about retirement planning. Two topics of particular interest to be included in this project are blended families and people without families, and how they manage.

Our third subject is **life planning and decisions over the life cycle**. This topic attempts to integrate many of the topics we have studied before.

Small groups have been set up for each of the three topics to decide how to pursue the topic and get the projects started.

### CONCLUSION

This exploration shared with you some of the work and ideas of the CPRNR. As we move into 2018, we are looking to further grow and expand our work. The very good news is that today a lot of people are interested in our work. In contrast, when we started, the CPRNR felt very lonely because not too many were focused on the post-retirement period. The bad news is that as

the population is aging, employers have greatly reduced their commitment to retirement benefits and public benefit systems are under a lot of stress. And as benefit structures change, individual efforts and decisions have become more important. So there is a lot more need for our work. I feel very gratified that the CPRNR has had very devoted and outstanding volunteers who have made major contributions to the work. Thank you to all of you and there is a lot more for us to do. ■



Anna Rappaport, FSA, serves as chairperson of the Committee on Post-Retirement Needs and Risks (aka the Committee on Post-Retirement Risk).

**ENDNOTES**

- 1 All of the work of the Committee on Post-Retirement Needs and Risks (CPRNR) can be found on the SOA website under Aging and Post-Retirement Research. <https://www.soa.org/research/topics/aging-ret-topic-landing/>
- 2 <https://www.soa.org/essays-monographs/2017-financial-wellness-essay-collection/>
- 3 <https://www.soa.org/essays-monographs/2016-diverse-risk-essays/>
- 4 <https://www.soa.org/resources/research-reports/2017/2017-post-retire-exp-85-years-old/>
- 5 <https://hcxchange.conference-board.org/blog/post.cfm?post=6484>
- 6 <https://www.forbes.com/sites/pensionresearchcouncil/2017/10/06/planning-for-success-at-older-ages/&refURL=&referrer=#74cd0d7c7318>
- 7 <https://www.soa.org/research-reports/2016/2016-post-retirement-experience-15-years/>
- 8 <https://www.soa.org/research-reports/2009/research-segmenting-market/>
- 9 <https://www.soa.org/research-reports/2012/research-managing-retirement-decisions/>
- 10 <https://www.soa.org/research/age-wise/>
- 11 <https://www.soa.org/research-reports/2017/2017-retirement-literacy/>
- 12 <https://pensionresearchcouncil.wharton.upenn.edu/publications/papers/>
- 13 <https://www.soa.org/research-reports/2014/research-models-finance-advice/>
- 14 <https://www.soa.org/research-reports/2015/2015-investment-retirement-advice/>
- 15 <https://www.soa.org/News-and-Publications/Publications/Essays/2017-financial-wellness-essay-collection.aspx>
- 16 <https://www.soa.org/research/topics/research-post-retirement-needs-and-risks/#other>



# MARK YOUR CALENDAR

## UPCOMING SOA EVENTS

**ERM Symposium**

April 19–20, 2018 • Miami, FL

**China Annual Symposium**

May 28–29, 2018 • Beijing, China

**Valuation Actuary Symposium**

Aug. 27–28, 2018 • Washington, DC

**Life and Annuity Symposium**

May 7–8, 2018 • Baltimore, MD

**Health Meeting**

June 25–27, 2018 • Austin, TX

**Annual Meeting & Exhibit**

Oct. 14–17, 2018 • Nashville, TN

**Asia-Pacific Annual Symposium**

May 24–25, 2018 • Seoul, South Korea

**Underwriting Issues & Innovation Seminar**

July 29–31, 2018 • Chicago, IL

Learn more at [SOA.org/Calendar](https://www.soa.org/Calendar)

