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What Were They Thinking? 2017 Risk and Process of Retirement Survey

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For more than 16 years, the Society of Actuaries Committee on Post-Retirement Needs & Risks has focused on improving retirement outcomes. The 2017 Risks and Process of Retirement Survey (the survey) is the ninth biennial study of public perceptions related to post-retirement risks. The committee has also produced three focus group reports exploring the actual experiences of retirees to add a "voice" to the survey results.

This article presents some highlights of the findings from the survey which include a combination of some repeated questions and special areas of emphasis. New areas of emphasis in 2017 are financial wellness, housing decisions, and long-term care planning and caregiving. Because the 2013, 2015 and 2017 surveys included changes in methodology from the prior surveys (see sidebar), 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, although the order changes. 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 inflation (77 percent of pre-retirees and 57 percent of retirees are very or somewhat concerned). Rounding out the top three concerns is long-term care (73 percent and 59 percent) and having enough money to pay for adequate health care (75 percent and 53 percent). Approximately two-thirds of pre-retirees and half of retirees also express concern about the possibility of depleting their savings (70 percent and 52 percent) and maintaining a reasonable standard of living for the rest of their life (66 percent and 52 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. In addition, pre-retirees consistently express more concern than retirees. It is interesting to note that the levels of concern in 2017 were generally higher than in 2013 and 2015 among both retirees and pre-retirees.

Keeping results in perspective: *Even though there are many risks that Americans face and deal with on their own in retirement, many people are not too concerned about some of them. For example, less than half of both retirees and pre-retirees are worried about the risk of fraud or a scam. However, scams can be devastating (since this survey was conducted before the Equifax data breach was publicized, it will be interesting to see if this changes in the future). 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 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 (89 percent) and retirees (82 percent) report they have already eliminated or plan to eliminate all of their consumer debt. Almost nine in 10 pre-retirees (86 percent) and seven in 10 retirees (70 percent) say they already have saved or plan to save as much as they can, while slightly lower percentages (75 percent of pre-retirees and 63 percent of retirees) have already cut back or plan to cut back on spending. It is interesting to note that while pre-retirees expect their spending to decrease, most retirees report they end up spending about the same amount in retirement as they did before.

Pre-retirees and retirees are much less likely to turn to risk pooling strategies to manage retirement risks (other than health insurance). Less than half of pre-retirees (42 percent) and two 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).

Despite feeling currently financially secure, pre-retirees have little confidence in their retirement preparations. Half say their financial planning and savings are behind schedule, including one in five (21 percent) who consider themselves to be behind by a lot. Roughly three in 10 have given little or no thought to whether or not their savings will be sufficient to cover their retirement expenses (31 percent) or even the type of lifestyle they want in retirement (28 percent). Few have given a "great deal" of thought to retirement assets and investments. Just 28 percent of pre-retirees have given a great deal of thought to how long their assets will last in retirement, and just one in six (16 percent) have seriously considered how they should invest their assets during retirement.

USING THE SURVEY AND FOCUS GROUP INFORMATION

The complete survey report can be found at

> *https://www.soa.org/research-reports/2018/retirement-risk-survey/*

Special reports focusing on the areas of emphasis will be released throughout 2018 and will also be made available on the website.

The focus group reports can be found at

> *https://www.soa.org/research-reports/2013/The-Decision-to-Retire-and-Post-Retirement-Financial-Strategies--A-Report-on-Eight-Focus-Groups/*
>
> *https://www.soa.org/research-reports/2016/2016-post-retirement-experience-15-years/*
>
> *https://www.soa.org/resources/research-reports/2017/2017-post-retire-exp-85-years-old/*

Presentations of survey and focus group results were made at the 2017 SOA Annual Meeting & Exhibit. Presentation materials containing these results and other committee work can also be found on the SOA website. Actuaries are encouraged to share key results with clients and are welcome to use results in their presentations with proper documentation of the origin of the material used.

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 advisors and financial service companies identify some opportunities.

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. Focus group results indicate 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 70.5 and later. Some focus groups 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. Retirees also appear to be surprisingly resilient in their ability to absorb and adapt to shocks.*

Overall Results

Overall, there is much consistency in the results of this work, and there are some main conclusions that continue to emerge:

- Pre-retiree expectations often do not line up well with the actual experiences of retirees. This is especially true with regard to retirement age and the expectation of working in retirement. The median age at which people actually retired was 60 compared to the median age of 65 when pre-retirees said they want to retire. In addition, while working longer can be an important strategy, many more people say they want to do this than actually do.
- 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 both pre-retirees and retirees show minimal concern about them.
- Pre-retirees are generally more concerned about most risks 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. Planning horizons for both retirees and pre-retirees are consistently only about 10 years which is inadequate to cover the period of retirement. Almost three in 10 report they have not thought about their planning horizon (28 percent of pre-retirees and 29 percent of retirees) and one in 10 state they do not plan ahead (10 percent of pre-retirees and 11 percent of retirees).
- 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. On the other hand, this may change as future retirees rely less on income from defined benefit plans.
- An increasing number of both pre-retirees and retirees report that at least one of their parents experienced a debilitating illness or disability in retirement, or that their parent lost the ability to manage his or her own finances.

FINANCIAL WELLNESS

There is a growing recognition that people who can't manage month-to-month expenses may not be able to plan for retirement effectively, so more employers are providing retirement education as part of their broader financial wellness focus. 2017 was the first time the risk survey focused on financial wellness. Key findings include:

- A significant proportion of pre-retirees have mortgage debt (55 percent), credit card debt (46 percent), and a personal loan or car loan (44 percent). While debt can be a problem for families of all ages, it seems to be a problem for fewer retirees than pre-retirees. Many retirees are frugal and tend to reduce both debt and expenses during retirement.
- It is clear that the majority of Americans do not do comprehensive long-term planning, but it is unclear how much difficulty this causes. Most do not plan for financial shocks, and many people are vulnerable to problems created by such shocks. The shocks that seem particularly likely to create major problems are a major long-term care event, divorce in retirement and children who need ongoing and repeated help.
- Many people do not have basic financial planning documents in place.

Housing Decisions

Most people prefer to stay in their homes throughout retirement, but many suffer from limitations later in life which make it impossible. There are major decisions that must be made with regard to housing and mortgages, and housing is the largest expense for most retirees. Most people prefer not to use home equity to fund retirement, but for those individuals without significant financial assets, their home value is often their largest asset:

- In the survey, only 37 percent of pre-retirees indicated that they would be willing to use their home value to help fund retirement.
- While reverse mortgages have gotten more attention lately and offer a way to use home values, they are very unpopular with survey respondents.
- Access to health care and low maintenance are valued attributes of housing.

It is very likely that the interaction of housing and retirement will get increased attention in the future.

Long-Term Care Planning and Caregiving

Long-term care is a huge issue for many people not only in terms of general knowledge but also preparation. Only about 10 percent have long-term care insurance, and most households will have major problems if there is an event requiring a long period of paid long-term care. Many people have served as caregivers for other family members or will be asked to do so. The survey indicated:

- People vastly overestimate the extent to which Medicare and health insurance cover long-term care.
- People seem to overestimate their ability to pay for long-term care.
- There is a big problem of failure to plan for long-term care.
- Employees who are providing caregiving could use some support.

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.*

RESEARCHER AND METHODOLOGY

This survey, as well as the eight prior surveys, was conducted on the SOA's behalf by Mathew Greenwald and Associates, Inc. The 2013, 2015 and 2017 surveys were conducted online while the prior six surveys were conducted by telephone. The most recent survey was preceded by a series of focus groups and interviews in both the U.S. and Canada, which probed longer-term retirees and their caregivers on their actual experiences compared to their original expectations.

As part of the 2017 survey, 2,055 adults ages 45 to 80 (1,025 retirees and 1,030 pre-retirees) were surveyed in June 2017. An additional 203 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, 2015 and 2017 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 do not provide specific insights concerning high-net-worth individuals. The sample data are weighted by age, sex, education, and household income to match targets obtained from the March 2016 Current Population Survey (CPS). This study includes pre-retirees and retirees at all income levels.

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