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Session 10PD
Changing Patterns of Retirement

Track: Retirement Systems Practice Area, Nontraditional Marketing

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Panelists: ROBERT L. BROWN
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Summary: Traditional retirement meant going from full employment to no employment. Long-term trends had indicated people were retiring earlier and earlier, but these trends have reversed in the last few years. Ongoing retirement patterns have potential significant impact on the workplace and delivery of retirement benefits. Our panel discusses research conducted by the SOA's committee on postretirement needs and risks; current trends in retirement, including phased and partial retirement; special issues for different types of industries and employers; and pension and health benefit design issues surrounding phased retirement.

MR. ARNOLD SHAPIRO: Rob Brown, whom everyone here knows, has a Ph.D. from Simon Fraser University. He's an FSA and an FCIA. He's also an associate of the Casualty Actuarial Society and is an honorary Fellow of the Institute of Actuaries. He's a past president of the SOA and of the CIA. Rob is a professor at Waterloo and currently is a visiting professor at Georgia State University. Rob brings a Canadian perspective to our panel.

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Note: The chart(s) referred to in the text can be found at the end of the manuscript.

Matt Drinkwater has a Ph.D. from Brown University. He's a Fellow of the Life Management Institute (FLMI). He's a retirement researcher at Life Insurance Marketing and Research Association (LIMRA) International. Matt will share with us some of the findings of his research undertaken by LIMRA as it bears on changing patterns of retirement.

Our last speaker, Gary Johnson, has an M.B.A. from the University of Nebraska, also is an FLMI and is a certified senior advisor. Gary will talk about the qualitative side of retirement.

The format of the session is that each speaker will talk for 20 minutes, and then the session will be open for Q&A. Our first speaker is Rob Brown.

MR. ROBERT BROWN: As Arnold pointed out, after making some definitions and giving a little bit of background, I will bring you a unique Canadian dataset. I'm going to look at some of the problems of that model as it will be introduced to you and close out from the Canadian perspective. We're going to save the Q&A until the end of all the presentations.

We're going to start by putting forward a definition of phased retirement: any arrangement that enables employees approaching retirement age to reduce their work hours and/or job responsibilities. That's a flexible and fairly inclusive definition, so phased retirement can take many forms. You might be looking at a retiree who's working as a part-time temporary employee. You might allow someone to go on a reduced workweek. You might rehire a retiree as a consultant. In fact, I've now been to sessions in which they introduce a concept that I find interesting. Some companies, instead of having retirement planning sessions for their employees approaching age 55, now have rehirement sessions to discuss with employees the flexibility that the employer and employee might agree to in the last years of employment.

Phased retirement could also take the form of a job transfer or job sharing, or you might decide to move to an alternative career path. You might turn a hobby into some income-earning possibilities, for one example. You wouldn't expect me to get up and speak for any length of time without doing some demographics. The median age of the work force is increasing. It's increasing with the age of the baby boom generation. The labor force participation rates are effectively down.

You may think I'm contradicting myself because among women in the past 25 years, their labor force participation at ages 55 to 64 has gone from 30 to 39 percent, but remember that's in an environment in which for the rest of the female age groups, it's gone from close to 30 percent to labor force participation rates equivalent to men, which is around 90 to 91 percent. Relatively speaking, if you relate those ratios, women also are looking at earlier departures from past patterns in the labor force. For men, it's much clearer. Participation rates from ages 55 to 64 have gone from 73 percent in the past 25 years to 58 percent, although we are now seeing a leveling out of those numbers so that the average age of retirement is no longer dropping in the United States.

Another thing that we need to remember is that the baby boom is now starting into those age groups in which phased retirement will be of interest to them, and in 18 years all of the baby boom generation will be in the age group in which they will either be in phased or transitional retirement or fully retired. Also, this is the best-educated generation ever, so these people still have a lot to offer. They are, in fact, assets.

Why would we look at phased retirement? I'll ask you. There's about to be the potential for labor supply shortages, and there are three possible solutions to this in the short run. One is increased immigration. The second is improved productivity. The third is delayed retirement. I'm going to force you to pick, but would you vote for one of those three? If you were a public policymaker, would you push the idea of increased immigration as the best solution? What about improved productivity as the best solution? How about delayed retirement? I'm going to claim the majority of the room is saying that we should be looking at the public policy issues around delayed retirement if this labor shortage is going to become a reality, and we think it will.

Phased retirement can help both the employer and the employee. For the employer, if done properly, it can assist in work force reductions while retaining some of its best people and key skills. Also, the employer can retain people to train new employees in their areas of expertise with lower training and hiring costs than any alternative. For the employee it allows a transition from work to retirement. I don't think people like the idea of working 40 hours a week till a predefined Friday afternoon and then not working at all two-and-a-half days later. That just doesn't seem to make much sense.

It may provide the opportunity to move into some other roles. Obviously it helps if you need higher income, and we'll see some anecdotal stories about that later. In the United States, in particular, it could be important to retain fringe benefit coverage, and generally it allows for greater flexibility. Research shows time and time again that normal retirement ages in pension plans and Social Security have a measurable impact on labor force retirement, so this is a causal line and will have an impact on when people retire.

I'm going to move to the Canadian scene and give you some data. We start by saying that 30 to 50 percent of workers do, in fact, move through some kind of bridge job or partial retirement as a transition, and many take years moving from full-time employment to full-time retirement. This next point is important. In a recent survey 83 percent of Canadian workers said that they would like to go through a transition, but with their career employers. They'd like to stay in their career institutions, and it seems to me you would like them to stay. If you've got a bright 55-year-old, do you want to hand him the golden pension and then have him show up working for the competition two weeks later? I don't think so.

Seventy percent of bridge jobs represent less pay and more flexibility, but that's fine with the workers long as it's negotiated, talked about and understood. More specifically, 32 percent of Canadian workers return to full-time employment within 24 months of "retirement," their first retirement perhaps, and 10 percent more, so 42 percent in total, have part-time jobs. Twenty-five percent of Canadian employers now have programs for phased retirement, either formal or informal. We need to understand that the best and the brightest are the ones who retire early and that 80 percent of workers retire because they can economically, not because they have to for health reasons.

Also, 88 percent of workers have defined-benefit (DB) plans, which are still fairly common in Canada. DB plans normally offer some incentive to retire early. At the least, actuarial discount factors are not full. Pension and tax legislation in both Canada and the United States, though, provide serious barriers to the concept and philosophy of phased retirement. For example, in Canada you cannot draw and accrue DB benefits at the same time from the same institution, and our pension benefit acts prohibit lump-sum payments from DB plans.

Now I want to introduce you to a model that was first legislated in the Province of Quebec and then imitated in the Province of Alberta but has not followed in any other province. This happened in 1997. It was brought in to help with phased retirement and reduced work, and the idea was that you could move some of your accrued pension into years in which you wanted to work at a reduced level to make up some of the income difference. There were conditions to this. You had to be age 55 to 70 and within 10 years of your pension's normal retirement age. There had to be a formal agreement with the employer, and that agreement had to be approved by a government regulator. We have data on how often this happened and the form that it took.

What happens is that you take part of your accrued pension, and you pay out lump-sum benefits while you're in phased retirement to increase your income during those years of flexibility. The maximum amount that you can move in any year is the minimum of three possible values. It's the minimum of 70 percent of salary reduction; 40 percent of the yearly maximum pensionable earnings (YMPE), which is defined as an important variable in the Canadian pension plan but is a proxy for the average industrial wage, and it was $39,900 in 2003, so let's round it to $40,000; or the present value of the accumulated rights, which is usually much bigger than either of the first two, and these dollars can be moved within qualified registered plans so that they retain their tax advantages.

For the years that you're in phased retirement and working part-time, you can continue to accumulate pension credits, and they can either be at your reduced work level or at the full level depending on the agreement you sign with your employer. Let's work through an example. Suppose you're a worker age 58 with a salary of $40,000 who wants to move to three days a week starting July 1, 2003, and then move into full retirement January 1, 2005. You're going to go from a five-day week to a three-day week, and it's going to happen halfway through fiscal year '03.

Your salary for the second half of '03, for the last six months, will be three-fifths of what it used to be. That means your whole salary for 2003 will be $32,000. The maximum that you can transfer from your pension accrual is 70 percent of the reduction — that's $5,600 — or 40 percent of the average industrial wage, which works out to about $8,000, and it can't be larger than your accrued rights, which in this case are much larger, $100,000. The minimum is $5,600. You can transfer a $5,600 lump sum from your pension accrual and pay yourself that money to add to your reduced income at age 58.

The following year you'll have the full year at the reduced salary. You'll be down to $24,000. The maximum you can transfer from your pension accrual is $11,200. That can get transferred and become income at age 59. But notice that what is going to happen is that your pension will then be smaller than it would have been, and in this case your pension will be smaller by almost $1,000 a year when you finally retire, so you're paying for this with your own money.

It's not coming from the government. It's not coming from your employer. It's coming from your accrued pension. It hasn't worked in the sense that it has not been taken up in large numbers, and we know that. You have to get approval for this. The numbers are very small. Why? From the employer's point of view, the work force is still strong and growing. We don't see potential labor force shortages until after 2006. If you look at the demographics, we're still not there yet.

There are other ways to go through phased retirement other than by using the government model, and it's complicated to administer. From the employees' point of view, they don't like the idea of negatively impacting their retirement income. They don't like that idea, and they find this model complex. I went through it quickly here, but for a layperson, that's a complex set of rules, regulations and outcomes.

Let's understand then that phased retirement will not appeal to everyone and that there are situations in which it's easier to do. It's easier to do if you have employee groups with similar functions so you can move people in and out of positions or let people work three days a week and still get the work done. It's easier to do when you are an employer with a long-service work force, and we need to understand that maintenance of income may be a major appeal in your design for phased retirement.

We believe that formal programs will be needed, and they are being set up with increasing frequency. What would you look at if you were about to design one of these formal programs? You need to set out the age and service requirements for the employees who will be eligible. You need to define a maximum phase-out period. You need to define how the decision could be reversed. You need to make it clear what other benefits and rights are included in the period of phased retirement, and particularly in the U.S., you'd want to make it clear whether medical care benefits eligibility ceases or not. You need to write down ~~in~~ the particulars of the restrictions on the work schedule.

We face challenges because the current pension and tax regulation is a barrier. As I've said, you can't take lump sums in Canada, and you can't accrue and get pension benefits at the same moment from the same institution. We need to understand that money may not be the key driving factor, but if it isn't, what is? One thing you wouldn't want to have happen is you wouldn't want a liberal phased retirement program to increase the number of early retirements inappropriately, nor would you want part-time workers to stay longer than you want them to. You have to design these plans carefully.

In Canada, phased retirement already exists. It will continue to expand. However, it alone will not solve the impending labor shortage. But I think the labor shortage is going to be an important driving force behind increased use of phased retirement, and employers will need to revisit the labor models that they now understand because things are changing. We'll now move along to Matt, who's going to bring you more U.S.-based data.

MR. MATT DRINKWATER: I will be covering some information in the U.S., but I'm going to take a step back and consider what these changing patterns of retirement mean for how we conceptualize retirement as a thing, as an institution or as a process in life. This is something that we're continuing to struggle with at LIMRA, and I hope to get across some of these ideas to you today. This is going to continue to be a major challenge for those of us focused on the retirement market.

I'm going to describe how traditional retirement has given way to a new conceptualization. This has been an ongoing process for a number of years. It leads to a reexamination of how retirement can be defined in several ways, particularly in the relationship between employment status and retirement status. I hope to convince you that they're no longer synonymous. We'll talk about trends in retirement timing, and we'll see how definitions are important in how we understand and measure those trends, and all of these issues provide some context for discussing this phenomenon of working while retired.

I thought I would offer this quote by the playwright R.C. Sherriff: "When a man retires and time is no longer a matter of urgent importance, his colleagues generally present him with a watch." I should also mention that R.C. Sherriff worked as an insurance claims adjuster for a while. Maybe he knew something there in that regard.

When we talk about traditional retirement, we're not talking about something that's been around for very long. It has a brief history beginning in the late 19th century. Most people worked until they died, unless they had fairly substantial wealth. Then we saw the way various programs such as the passage of Social Security in 1935 and Medicare/Medicaid in the mid-'60s began to involve the U.S. government in the retirement business.

Back then, of course, old-age benefits began at the average life expectancy, which is, as you may understand, no longer what it was in 1935. The traditional retirement concept was fairly synonymous with employment status. When you stopped working, you were considered retired. If you continued to work, you were not retired, but perhaps semiretired for some individuals. Usually it was brief in duration because people retired later and didn't live as long. It constituted a smaller proportion of their entire lifespan.

There was a paternalistic approach that companies and the government would take care of retirees in the form of pensions and postretirement health care. You could consider this the age of the gold watch. In today's retirement, we seem to be transitioning out of that period. First, the definition of retirement is continuing to evolve and change, and, as a result, there is no single definition. It's not synonymous with employment status for many people. It's a longer exposure. It starts sooner and ends later. It's a longer proportion of a person's lifespan.

The risk management burden has shifted onto individual retirees, and this has been a focus of a lot of our research at LIMRA. There's more exposure to various risks, such as investment risk, long-term care or frailty risk and longevity risk. There are fewer guaranteed benefits from employers. We're seeing the rise of defined-contribution (DC) plans as opposed to DB plans. More recently we're seeing retiree health benefits that are being eliminated, not necessarily for current retirees but for people who are still in the preretirement stage. They're learning that their employer is cutting off or freezing their benefits in some way. Working in retirement is becoming more common.

Given all these changes, what are some of the ways that we can get a handle on this idea of retirement? What are some of the necessary and sufficient conditions for being retired? We would think that one portion of the definition is age. It's the simplest, easiest-to-measure definition. Given the percent of the U.S. population age 65 or older, as of last year, we were at 35 million. That'll double to 70.3 million by 2030. The problem with looking at retirement strictly in terms of age is, of course, that some people retire before 65, and some continue to work beyond 65. It's not a sensitive or specific measure of retirement.

What if we refine the definition a little bit to those age 65 and not in the work force? Probably all of those people would consider themselves retired. They're over 65, and they're not in the labor force. For the most part they would probably consider themselves retired, but, again, we have this problem of what about the people under age 65? The Bureau of Labor Statistics says that 70 percent of people in the United States between the ages of 55 and 65 have earnings compared to 17 percent of people age 65 and older who have job earnings. The question is which ones are retired? Again, this is a specific measure but not necessarily a sensitive measure. We're leaving some people out.

Still another way to look at retirement is to look at the number of people who are retirees receiving Social Security income. These figures exclude survivors and dependents. A lot of Social Security recipients would consider themselves to be retired, and it certainly represents a sizable proportion of a typical retiree's income. We know that from a lot of sources. The problem is we're not including those early retirees, and, again, the measure is specific but not sensitive. It leaves out some retirees.

We can continue to talk about different ways to define retirement that make it easy for us to measure it. Is it pension-based? Are those people receiving pensions? They are certainly retirees in a sense. They're retired from a particular job. They're drawing a pension income. Perhaps life stage-based definitions might work. Maybe it involves a spouse's retirement status. That's getting more difficult to quantify.

Why don't we just throw our hands up and say that it's self-defined? Whatever people say they are is the definition of retirement. It's totally subjective, but in a sense it's the most valid definition. It's difficult to argue with a person and say, "You say you're retired, but you're not retired," or vice versa. This, of course, must be measured directly. The question then becomes, if we measure it directly, is there a way to measure it by proxy with some other easier-to-measure definition? As I'll show, that still remains a challenge. According to a recent LIMRA survey of consumers of 2,500 people between age 50 and 75, 54 percent of them consider themselves to be retired. If you just look at those people aged 66 and older, 90 percent consider themselves to be retired. There is some relationship between self-defined retirement and age.

In an earlier study, when we asked other survey participants to define retirement, we got a lot of different definitions. The top one happened to be "no longer working at a job," but it certainly didn't have a majority of respondents, by either retirees, people who self-define as retired, or preretirees, people who are between age 55 and 70 who claim to be within two years of retirement. No single definition is dominant. For some people, it means participating in various activities. For others, it means rest and relaxation. Some define retirement in terms of work.

Especially with the preretirees, 7 percent are saying their definition of retirement is working, either full- or part-time. The take-home message from these data is that we can no longer equate retirement status with employment status, though they are undoubtedly linked. If you're no longer working after a certain age, that may be a sufficient but unnecessary condition of retirement. This makes talking about trends in retirement timing a major challenge because the trending depends on which definition of retirement you choose.

Here's a way to look at two competing ways of defining retirement (Chart 1). On our Y-axis, we have the age at the time of retirement. That line represents the youngest age at which at least half of men in the U.S. have left the labor force, and I just drew it as a line. I believe there might be a little blip in 1995, but the take-home message is that it's been stable since the mid-'80s, after falling for a number of years prior to the mid-'80s. The bars represent LIMRA data from that study I mentioned earlier involving the 2,500 retirees and people not yet retired. The trend appears to be toward later retirements.

There is a survivor bias here. The people who are perhaps retired at an older age, on the left-hand bars, through attrition may not have turned up in our 2003 study. So, there is a survivor bias, but the consistent finding that I want to get across is that people are continuing to work even though they're calling themselves retired. They seem to say they're retired before fully leaving the work force. In other words, they're retired and working.

Why are we witnessing this finding? One way to look at it is in terms of the incentives to retire sooner or later. People are being pulled in two directions. On the one hand, people want to get away from their job stress. They want to put work behind them, and they want to do what they want when they want to and enjoy the golden years. They also don't want to be behind the curve when it comes to their peers. They don't want their neighbors to be retiring, and they're still slugging away. They don't want to miss out on Social Security benefits that are available as early as age 62.

But, on the other hand, there are some reasons to delay retirement. For example, we see the rise of DC plans, which are far more age-neutral in their benefit structure than a DB plan is, and of course they have begun to replace the DB plans. They may not be ready to retire. As Rob mentioned, the Social Security normal retirement age is 65, and that will gradually ratchet up over the next few years.

Finally, some people might enjoy working, and they also might understand that full retirement — going from working to not working at all — is a potentially risky proposition. They might want to delay it. You've got two sets of incentives that are somewhat in competition. The solution for many people is to work and call themselves retired. In a sense they can have their cake and eat it, too. They can potentially take their Social Security income and reduce their work hours, but they're still continuing to work at an enjoyable job and build up savings further in their DC plans or other plans. They can work part time or potentially full time. According to the Bureau of Labor Statistics, 13 percent of people age 65 and older are still in the labor force and working, that is, they're not unemployed. Excluding those 75 and older, the figure is 20 percent, and what's interesting about that 20 percent is that it matches LIMRA's recent consumer study. About 20 percent of the people in our study between the ages of 65 and 75 are working.

Even among those over 65 who self-identify as retired in our study, 13 percent are currently working according to our findings. There's that 13 percent. Most current retirees (85 percent) work because they want to work, not because they have to work. This difference in terms of wanting to work or having to work does not differ by whether or not they're working at their primary or secondary career. Most individuals who are working in retirement are working in a secondary career. That could change if we see phased retirement become more common.

Let's compare current and future retirees' employment in retirement. Among preretirees, 55 percent plan on receiving part-time job income in retirement, and among current retirees, 21 percent are receiving income from part-time employment. Two out of three preretirees believe that part-time income will make up some portion of their household income according to these findings. In terms of full-time job earnings, only one out of 20 retirees (5 percent) earns full-time income, but more than a third of preretirees predict that full-time job earnings will contribute to their household income in retirement, and these earnings usually are a major source of income. I find this interesting.

Last month an AARP study was released that said three-quarters of older workers say they plan to work past the normal retirement age, and 61 percent of the respondents who plan to work past the retirement age will continue their present job or work in a similar one. What this seems to be getting at is there's impetus to consider working at the same job in retirement, which leads into this phased retirement concept.

In our data, more than one-quarter of retirees who are both working and receiving DB pension income say that they are doing their primary career work. Again, these are retirees. They are working, receiving a DB pension plan and doing perhaps the same job that they were doing before, probably as consultants, but not necessarily as rehired employees. This can be to their advantage, though, and we talked about this.

It can be to their advantage to stay in the same career. Perhaps they have higher earnings. They may have more networking opportunities. I'm going to quote Rob at this point in an earlier report that he came out with a few years ago: "Workers should not have to leave their primary or career employer to find these bridge jobs. They should be able to bridge within their career path where their skills are most valuable."

Stepping back for a minute, given some of the information that I've shown, why aren't we seeing more phased retirement situations? There are regulations that prohibit in-service distributions from qualified plans, and that's especially stringent for the DB plans that require a bona fide separation of service for at least six months. The employer can suspend benefits if an employee works past the normal retirement age or returns to work after separation. That returning worker must waive the suspension of benefits to keep them. If this is done, the future benefits are recalculated taking into account the previously paid benefits. On the other hand, with DC plans, the benefits can be withdrawn past age 59½ while still working. Perhaps with the rise of the DC plans we might begin to see people continuing to work, perhaps part time, and drawing that income from their DC plans.

We've seen that retirement as a concept, as an institution, continues to evolve. We would think that would change even further as the baby boomers move into their retirement years. It's a longer, riskier period of life. It's not a one-time event. It's more of a transition. We can't equate retirement status with employment status. We at LIMRA advocate self-definition as the standard, and we're still seeking the best proxy measure for that. We need to think about what the necessary and sufficient conditions of retirement are because if you're working and you're retired, which camp do you fall into? Are you still employed? Are you retired? Are you something else, perhaps phased retired? Semiretired? We would also think that working in retirement will become more common as we go along.

To meet the challenges of retirement, we think that companies need to provide more innovative solutions and plan design, working with plan sponsors to provide phased retirement programs where needed and where allowed by regulations. At a broader level, we need to consider regulatory changes to allow employers and employees to formalize these arrangements. We saw an example of that in Canada, which didn't necessarily go over all that well, and Rob described some reasons why. In industries in which people are physically able to continue working, they're going to work longer into their retirement years.

Having said all of that, I think that it may not be such a bad idea to give a watch as a retirement gift because you're going to still be on the job continuing to work. With that, I'll turn it over to Gary.

MR. J. GARY JOHNSON: These guys have done a good job of painting a picture of what's going on out there. My role at Physicians' Mutual, a life and health insurance company in Omaha, Nebraska, is customer segment manager. My job boils down to looking at secondary research such as information, data and studies that come from places like LIMRA, as well as doing our own primary research, then putting it together with the qualitative side of things, marrying them and reaching conclusions as they relate to our customer base. In my particular role, focusing on the senior market age 64 to roughly 80, we want to know what these implications are at the customer level.

To complement what Matt and Rob have presented, I'm going to put some skin on the numbers—I'm going to look at some profiles of people whom they've been talking about in a roll-up way, but we're going to drill down and look at some anecdotes. We're going to use the qualitative, anecdotal side to look at what these pictures are at the customer level of people who are working in retirement, and why they are doing it. We're going to take a look at the qualitative side: What's out there in the popular press. What are people reading? What are people doing relative to phased retirement? What's being reported in that regard?

We're going to look at it two ways. We're going to look at what kinds of articles have appeared in recent months regarding nontraditional retirement, and then we're going to look at some minicase studies, which are profiles of people who are living what's been talked about already. We grouped them into the good, the better and the unfortunate, and from that we'll draw some conclusions about what this means relative to this topic of the changing patterns of retirement.

It doesn't even need to be said, but as you've heard these two gentlemen talk about this idea of retirement, the winds of change are blowing. We've got an idyllic view of what retirement might mean. You have a retired couple. At least we can presume and assume that they are retired, sitting beachside on the calm waters, but, in fact, that whole idea of what retirement is and what people do in retirement is being called into question for a number of reasons. To a degree in his work *Desiderata*, Max Ehrmann may have been prophetic regarding what we're talking about this morning. He says, "Keep interested in your own career, however humble; it is a real possession in the changing fortunes of time." That certainly applies to the idea of retirement, of looking out for your career and how your career might change over time as the dynamics around you change.

In early September, I asked our internal research department to go out and search the articles that have appeared in the popular press about phased retirement, nontraditional retirement and working in retirement, using those search terms. The search engine that we use to look in the popular press allows you to specify a date parameter, and I asked them to go back 60 days and see what they could find. There were more than 100 articles that had been printed even in that timeframe. Not all of them were useful and relevant to what I was looking for, but suffice it to say a number of articles were. This is in the news. It's happening right now. While it may not be the norm, it's certainly newsworthy today.

Here are a couple of the titles: "Seniors finding new careers offer rewards" and "Senior citizen doesn't necessarily mean retired." That's essentially what has been presented from Matt and Rob regarding the Canadian side and in the work that LIMRA's done.

Here are some more: "Why retirement isn't all play anymore," "Many retirees return to volunteering," "Uncertain economic times force some seniors to work well into retirement" and "Retirement age, but hardly retired."

What can we conclude from these titles? This is a quick snapshot of the kinds of articles that are appearing in the popular press. We can start to conclude, and you'll see this come out in a minute as we drill down into some scenarios of individuals, that people are not retiring in the traditional sense of the term. To borrow from Matt, it's not their grandfathers' retirements. They are pursuing opportunities for a variety of reasons. In some cases they're economic. In other cases, the reasons for continuing to work are personal or psychological.

I'm going to step through a few profiles of individuals. Granted, they're anecdotal and qualitative, but notice how they complement some of the data that you've already seen presented. Unfortunately, as I went through some of these articles that appeared in the past 60 days or back to roughly the early-to-mid part of July, you couldn't capture a photograph from that article because they're stored on the Internet, and you couldn't get the pictures from most of the newspapers that these came from.

I’ve taken some editorial license, and I put in pictures that are my vision of what these people would look like. In doing so, I had to change the names because if I put in the real names of the people signing the article, they obviously wouldn't look like that. Rest assured that the information is extracted from articles, though, and that it represents the facts about various individuals.

Let's look at Ray. Ray is from south Florida. He retired once from being a physical education teacher, coach and referee. Then he retired a second time at age 65 as a parks and recreation director. Now he works part-time. He's in his third job and works three days a week. The most important point I want to focus on in this case is that teaching's his passion. He says, "I used to teach the young kids, and now I teach the old ones. They have the same needs and interests." Why is he doing it? You get the impression that he falls into this good category of not needing to work, but working because he wants to.

Here's a retired business owner from Buffalo, N. Y. He works part-time at Target. He says, "I'm going to be here until I'm 85, and then I'm out of here. If you don't like to do things, you probably can get by, but it's about quality of life." He's 68 now. He's saying he's going to be at Target 17 more years. That shocks me, but that's his vision. He wants to be there. He's talking about his quality of life. I don't know if it's for economic reasons or whether he just enjoys doing that. "As long as I'm physically fit, I'll keep working. You get bored at home." I love this: "How many reruns of Perry Mason can you watch?"

This one has a last name because this is a person that I've got the picture and name to match. He is the driver at one of the Honda dealerships in Omaha, Neb., where I live. I met this guy because he transported me from the dealership when I brought my car in for service. His name is Les Severtson. He worked at the same dealership as the manager of the service area and worked there for 27 years.

He retired at age 65, went three years without working and was connecting with his buddies back at the dealership. They asked him one day whether he would like to drive the courtesy car for them. He replied that he'd love to. He's been doing it for nine years. He says, "This isn't work. I'm having fun. I don't come to work." He works five days a week for half days. "Too many people retire," he says, "at age 65 or 66, and they don't realize they need to keep busy to keep their body working." He doesn't have to be there, but he wants to be there.

Here's somebody to whom I gave the name Val, but she's a real person from Buffalo, N.Y., who retired in 1977 from the community development office. She ran a bookstore and then a gift shop. Now she's unemployed. She says, "I needed to supplement my pension and Social Security. They're both small. When you have a job making a nice salary, and you go down to one-third of it, it's quite hard. You like to have a few dollars. I don't need it, but I want it."

Here's the stereotypical job that many of us have in our mind's eye. Here's a Wal-Mart greeter. We'll go to the eastern side of the Midwest to Fremont, Ohio. When the gentleman I've named Robert is asked why he enjoys his job, he says he likes meeting people and talking to them. Why does he work? He works to be active, and it gives him something to look forward to. It's a reason to get up in the morning. It also helps to supplement his income. He doesn't necessarily have to be there—that's the impression you get from the article—but he wants to be there.

I've got to share this with you regarding that particular anecdote about Robert. Here's what the personnel director for that Wal-Mart store, which employs 12 seniors, says: "They, the seniors, are very reliable. We can count on them to be here, and they're always on time. They're always very up. They're dedicated to their jobs." You've heard about this available work force being skilled. Look at what the personnel director is saying about the attitudinal difference as well as the performance in terms of the regularity of being on the job.

Let' go north of the border. We've got a guy who's 85 years old, in Edmonton, Alberta. He's a business owner. He's not retired. He owned a funeral home. He works two to three hours a day. "It's been my whole life. I started as a young boy working with my father. I just can't get it out of my system." Life and work are together for him. Those are not distinct things. You can't shut it off, as was mentioned, on a particular Friday afternoon. By the way, this guy had hip surgery in June, was back three weeks later in a wheelchair and then later had a walker.

Let's go to Virginia. Here's Rita. She's worked 59 years and has never retired. She's 71 and now works in a department store. She has for the past 21 years. What she says is her motivation for working in retirement or past the traditional retirement years is, "If I wasn't working, I'd be on a tight budget. I wouldn't be able to spend money like I do. I don't need it, but I want it. I like to shop. I like to visit family out of state." Her husband is also retired, but his health is such that he can't work. She's the person that can earn more income for their household.

Let's go to some people who are thriving. They are "the better." Let's go north of the border. Here's somebody who's 81. She's a real estate agent and works 10 hours a day. She says, "I've seen too many of my friends have to retire at age 65, and they're just bores when you go out with them. Every day that I get up and get out, I'm happy to do it." Can you imagine? Her clients are in nursing homes. She sells their properties.

Here's somebody who comes from an academic environment. He's a retired professor from Duke University. This is not his name, but we'll call him Earl. He retired and got involved in a home repair business. He does tree and bush trimming and roof and gutter work. I have trouble with that myself, and I'm a few years under age 73. Basically, this gentleman focuses on the senior market and this whole idea of the study of aging. It's his personal cause and his passion in life to prove that you get better with age as opposed to becoming less effective. In fact, he went on to say that for every year that he has a birthday, he does that number of years in sit-ups and push-ups. If he turns 73, he does 73 push-ups and 73 sit-ups. How many can do that? How many can do their age right now in sit-ups and push-ups?

Here's a social work supervisor. This article came from the *Calgary Herald* in Alberta. Elizabeth says, " I graduated from university 20 years ago and still feel like I have something to contribute to my community." She has a sense of wanting to give something back. Yes, she could retire. In fact, the article indicated her daughter encouraged her to retire.

Let's go to the West Coast. There was a guy who worked for an employment agency for more than 20 years. The agency closed its office. He started his own business at age 71 in 1999. That business now has $2 million in yearly revenues. "There was only so much gardening I could do. I'm too old to golf, and I don't ride horses anymore."

Let's stay on the West Coast. Here's a guy who's 80, is a semiretired stockbroker and works three to four hours a day. He talks about what he does as he goes for coffee with his buddies who are retired. They go to the local coffee shop. They stay there an hour. He's there 15 minutes. He says, "They get to reminiscing and telling stories that I've heard many times. Some of them can stay there for an hour, but 15 minutes is enough for me." He goes to the same office where he's worked for the past several years and works part-time. He watches television while he's working, but he does take calls from clients. He says, "If I get a call, I can concentrate." He likes to watch golf.

We also have some stories of the unfortunate. Here's a woman who is out of money. She took care of her terminally ill mother. She says, "Sometimes it comes down to making a hard choice of whether to buy groceries or medicine." She was forced back into this, particularly through the low interest rates and the low returns on her savings.

Here's a woman in a story that came out of the *Wall Street Journal* who was laid off in North Carolina from a textile factory. She has little. She's 83 years old, smokes a pack of cigarettes a day and drives a 1992 Chevy Cavalier with 14,000 miles on it. She's looking for a job. She's afraid that she'll go stir crazy if she doesn't get a job. I'm not sure if she needs it or not, but she wants it. She's certainly in dire straits the way the article paints the picture.

Here's another one. She's back to work making $100 a week because she says she has $200 a month in health coverage requirements. I assume that's Medicare Supplement. You take that out of $688, which is her Social Security, and there's little left.

What can we conclude? That's a whirlwind tour across North America of some stories behind the numbers. There are two broad categories we could look at in terms of why people work past what we traditionally have viewed as retirement age. There's an economic driver behind it. Some of these people have to go back to work to make ends meet. Some of them do it because they want to improve the quality of their lives. They don't have to, but they want some extra spending money. There are a variety of psychological reasons. Some of them work because they like to be around people. Sometimes their identity or their self-worth is tied up into the work that they do. Some are just passionate about it. Finally, some are just scared of what it would be like not to be working.

It's newsworthy today, but it'll be commonplace tomorrow. What we're seeing in the news today is newsworthy because it's different from what we have traditionally known, and it's gaining social acceptance in our world. It's perhaps the tip of the iceberg. We live in an environment in which a few years back the ideas of retirement and working were binary. I would like to think that we're moving into a matrix of options that would be available to people in their senior years regarding what they can and can't do.

What we're seeing today are snippets and maybe some experiments like the type in Quebec of what the future will be. There may be several sets of alternatives available to people. Many adaptations need to be made. You've heard some of them this morning in terms of pension plans. At Physicians' Mutual we encourage our agents to have an annual review with their clients about with their financial situations. Can you imagine what this will be as we go through time? The income levels will continue to go up and down. The clients' situations will change as they stop and start working, which changes their financial situations.

That's the qualitative side of what we've tried to cover as the basis of this presentation.

MR. SHAPIRO: We do have time now for Q&A. I'll start. I'm the only guy on the panel who's 65 and has this issue to deal with. One of the questions that comes to mind is how do laypeople who are about to retire or who have that option deal with finding the optimal time to do this? How do they find the optimal time to get long-term care? When should they be starting, and what should they be getting? What about other issues that have to do with this transition?

MR. BROWN: I'll start by referring to a paper that I think came out in the last issue of the *North American Actuarial Journal*, if not the previous one, where I was one of the referees. It showed a lot of data to indicate that people retire because of signals they get from their environment. In particular is something that Matt alluded to, whereby your next-door neighbor retires, as do your brother, sister and cousins, and you say, "I better retire. It must be retirement age."

In fact, one of the conclusions of the paper was that financial planning is not what we do. We're not strong in that area, and we, as a profession, probably have some real challenges first and opportunities second to help in this regard. I say we have challenges because the average person can't afford an actuary to come in and do personal financial counseling. We aren't at that cost level, but I think on a macroeconomic level we can do things. We can publish documents and show people what they need to be able to retire at levels A, B and C. But at the moment it would appear that the biggest driving force in the decision to retire is what the neighbor did.

MR. JOHNSON: You're going to hate this answer, but it depends, and I say that in jest. Certainly there's a mix not unlike the two broad categories that I used in the summary. There are personal reasons and there are economic reasons that need to be balanced. There are people who live better nonretired in terms of not just the income in their personal situation but in the life that they have and the energy that they have. I challenge the question posed to me by asking where are you going to be most fulfilled as an individual? .

The other thing that I would probably pick up a little bit is the comment that's already been made. South of the Canadian border, particularly in the markets that my company focuses on, when it comes to retirement, the focus is usually Medicare Supplement, and there hasn't been a focus on long-term care. I think financial professionals, like the industries we deal in, need to look at balancing the short-term medical expenses with the long-term medical expenses. That's a challenge. That's easier said than done.

The challenge, for those of you who are familiar with the Medicare Supplement products, may not necessarily be going for those product plans that require or that provide the lowest deductible. Instead it may involve trying to look at your premium dollars available. Instead of being Medicare Supplement-rich and long-term-care poor, try to balance those two key health insurance products. That's a long-winded answer. It's hard to answer that question in short form, but balance those psychological and economic motivators and don't forget that there are not only short-term medical expenses, but longer-term medical expenses as well.

FROM THE FLOOR: There's talk about the need for legislative changes, and I was wondering when you think that'll happen to allow people to transition within their own jobs. What's going on right now to push that along?

MR. BROWN: The baby boom gets what the baby boom wants. It's still the largest identifiable demographic in the voting categories. The boomers are getting into those ages now in which they want phased retirement. They're going to be starting to write to their representatives and asking whether they realize there are legislative impediments to doing what is logical and wise. They'll ask for changes in legislation. I think soon. Not tomorrow, but soon.

MR. JOHNSON: I haven't heard any legislative proposals coming down the pike. There have been a lot of other retirement-related issues that have been receiving more of a focus than phased retirement, but I agree with Rob. It's inevitable. It's just a question of when.

MS. SUE PIERCE: I have a question for Matt. Some of the statistics you have were about people who are retired, but they're actually working either part-time or full-time. Was there any particular definition for working? For example, when my father retired he took up his hobby of fixing up old antique lamps and things like that, and if you asked him if he was working, he'd say, "Oh, no. I'm just pursuing a hobby," but he did have a business. He had outlets where he sold them. I would have considered it a part-time job.

MR. DRINKWATER: Most of the data that I just presented was from a study that we did this year of 2,500 consumers in the U.S., and we asked for a retirement status right off the bat. "Do you consider yourself retired?" We also asked, "Are you employed full-time or part-time or not employed?" I think we also asked about being self-employed. But we also asked, "Is this your primary career? Secondary career? Are you a volunteer?" You said your father is gainfully employed, but he would consider this a hobby?

MS. PIERCE: He would consider it pursuing a hobby, but you can't fix up lamps and just leave them in the basement.

MR. DRINKWATER: Another way to look at it is instead of using the term "employment status," we could ask, "Are you drawing income from this particular source?" We also asked that in a different part of the survey. We asked, "Are you receiving income from Social Security? Are you drawing from your pension?" We asked about that as well as whether the person is engaged in full-time or part-time employment. That's another way to tease that out.

FROM THE FLOOR: I have a couple comments to make, more than I have a question. I was an actuary for 23 years, and I am now a financial planner. I started my own business two years ago. Regarding the comment you made, Mr. Brown, I don't know whether most people could afford me or not.

To answer the question that you asked, Mr. Shapiro, about how people know when it's the right time to begin thinking about retirement or evaluating their situation, when financial planning is done in the right way, that's what it's all about. It's about understanding what somebody's goals and objectives are and having that thorough and thoughtful conversation. We heard a lot about statistics of how we define retirement. I'd ask the actuaries and all the analytical people in the room to think about it from the customer's perspective. That's what I try to do, and I try to put 23 years behind me and forget about the numbers. I try to deal with people issues. It's whatever gives them peace of mind, and when you start to understand what's motivating them, it may be financial need, but it may be some of those other intangible issues. Through that planning process is when people decide to retire, or however you want to define it. It may be early. It may be late. It may be in concert with a second job or a different career. Think about that a little bit.

My last comment is as companies and regulators think about how important it might be to have a phased retirement program, it might be beneficial from the customers' and the clients' perspectives for companies to think about offering financial planning to their employee base, especially at larger companies. Think about incorporating flexibility in the plans as they're developed over time to allow that and to get you through the regulatory loopholes. Larger companies should think about offering financial planning so that the employees can look at their own situations.

They can ask, "When is it right for me to retire?" When you can do cost-benefit trade-offs about taking Social Security retirement benefits at age 62 versus age 66 or 67, people start to see the big picture. Some might want to start funding for long-term care in their late 40s. I've had some clients who want to do that. Some don't want to think about it until much later. It's all an individual situation, and the more that we can develop flexibility into the phased retirement system, the more likely it is to succeed.

MR. JOHNSON: I want to follow up on that. We have lots of diagnostic tools to help people to understand what they need to do to get from age 40 to 65. What's interesting is as an industry we lack the tools that help people to understand what they need to do from age 60 to maybe 90. Maybe we need to have tools, processes and expertise to help them through the after-retirement. We've got lots of things that have been well developed to help people to get to retirement, but once they're there, then what? What are their scenarios? What are their options?

MR. STEVE COOPERSTEIN: As people age, they're influenced by how long they think they're going to live. So I'm wondering whether Matt, in particular, segmented his analyses by people retiring in their 50s, for example, teachers or public workers, versus people retiring at 65 or 70 from their first jobs? If so, what is their motivation compared with people who are in different age brackets?

MR. DRINKWATER: What is their motivation for retiring at that time?

FROM THE FLOOR: Yes. In other words, some go on to second careers. I could see people going on to second careers in their 50s, whereas people retiring at 65 already are seeing a horizon. They don't have enough time, so to speak, to go on to a new career or go back to school. I'm wondering if you segmented your analyses.

MR. DRINKWATER: Not exactly in that way. We have segmented our analysis on various other demographics. We're still in the process of analyzing and writing up these data. These are fairly new. Interestingly, though, an earlier study that we did on general retirement issues found that the age at retirement did not vary substantially across these different demographic groups. There was a tighter distribution around age 59 or 60, which seemed to be the median age of retirement. I understand what you're saying. It would be nice to be able to segment and say that people who retired at 50 versus those at who retired at 60 or 65, but we—

FROM THE FLOOR: Where'd they go with it?

MR. DRINKWATER: Among those who answered that question, there wasn't a tremendous amount of variation, surprisingly.

FROM THE FLOOR: This is more of an observation, but if anybody would like to react to these comments, I'd appreciate it. Picking up on the theme of the last two speakers, it strikes me that maybe a good bridge job for actuaries approaching retirement would be to engage in some individual, personalized, financial planning to help people, and maybe they could do it at an hourly rate that was economically feasible. I'm delighted to see someone in the audience who is doing that kind of work, I'm assuming on a full-time basis.

My perception based on the financial planning literature that I've read is that it has significant weaknesses in terms of dealing with longevity risk. I don't think that the typical financial planner counseling retirement people and the typical literature on which they're basing their advice and decisions do nearly as good a job at dealing with the risk of outliving assets as presumably and hopefully actuaries would do.

That's setting aside any of the genome-type effects that we heard about this morning, but I think we already have a problem with people outliving assets despite that, and it's being triggered by the greater ability of lump-sum distributions, the trend from DB to DC plans, and so forth, and the hubris of a lot of investment managers to think they can do well enough to keep you going no matter how long you live. I do think that there is a significant risk facing the population of outliving assets. Our profession is uniquely qualified to do that. I hope that we will be able to find ways to have a societal impact in this area perhaps more than we have today.

MR. BROWN: A couple of things come to mind. First, the example was already given in which companies could have seminars or colloguia to allow personal financial planning for a group of employees, and then they could afford our rates, even if we wanted to charge at market value. The second thing is an area I'm just starting to get into, and it's a rude challenge to our industry. For a lot of people we understand that one way to handle the longevity risk is to annuitize, but for a lot of people there is not an existence of a market-value annuity. We sell annuities on the assumption that the annuitant who self-selects is, ergo, healthy. Our industry at the moment is not providing a service to a huge proportion of the population in terms of allowing them to find market-value annuities. We need to do better. We can, in fact.

There are real ways that you can do risk classification post-65. There are lots of ways to be just as good at risk classification as smoker/nonsmoker. I can show you that there's a two-to-one-ratio of mortality among white-collar wealthy people than among poor, minimum-wage blue-collar workers. It's the same as smoker/nonsmoker. It's two-to-one. We don't have that differentiation in our normal annuity marketplace. Except for structured settlements, we don't have much. I'll throw that out as a challenge. Maybe I'm being rude, but there you have it.

MR. COOPERSTEIN: There are, I'd say, 10 companies in the U.S. that are doing that, and there are a number in England. I don't know about Canada.

MR. BROWN: In England, for a variety of reasons, you have to annuitize. I would challenge you on their definition of impaired.

MR. COOPERSTEIN: We even passed an Actuarial Guideline 9(c), I think it was, that says if you're more than 25 percent impaired based on medical assessments, you can use higher mortality rates in your statutory reserves like structured settlements. We just did that—.

MR. BROWN: I will challenge you that a blue-collar worker who is otherwise healthy should be able to buy a market-value annuity, and they're not impaired under that definition.

MR. COOPERSTEIN: Under the 25 percent definition?

MR. BROWN: Yes.

MR. COOPERSTEIN: If they're aren't healthy enough, they are.

MR. BROWN: Well, I'll leave the challenge. I don't think you've answered my challenge.

MR. COOPERSTEIN: There's another company that's underwriting, and I think it has classified its annuity on two levels, and it had simple questions, and one level would get a 10 percent increase in benefits, and another would get a 20 percent increase in benefits, just based on some health questions.

MR. BROWN: You shouldn't have to be in impaired health to get a market-value annuity. I'm repeating myself, but I don't think you've answered the challenge.

MR. COOPERSTEIN: I see. I misunderstood. You're not saying impaired health?

MR. BROWN: No, I'm saying if I'm a blue-collar worker, I should be able to get a different annuity than a wealthier white-collar worker, even though both of us walk in whistling and skipping across the rotunda.

MR. COOPERSTEIN: I would say that that's up to the company to determine if that's a significant enough factor to reflect that, just as you would in a life insurance policy.

MR. BROWN: I leave out the challenge. I remain saying that I challenge you.

MR. DRINKWATER: Can I just say at this point looking at it from the customer's perspective, I understand the need to issue this challenge, but I wonder if most of the customers out there are not choosing to annuitize because they understand that it's actuarially not as fair as it potentially could be. I think there are other barriers to getting people to annuitize than the pricing considerations, and those barriers maybe are more of a challenge than the pricing.

MR. JOHNSON: If I understood the original question on that last exchange, I would think there's a great opportunity for people like yourself. We're constantly, in our particular organization and I think other life and health insurance companies, talking about being in the business of protecting risks. You have it figured out, and you have the ability and perspective to understand mathematically as well as at the consumer level what that means and what is best for them. I would think there'd be great opportunities for those who choose to bridge in that direction. I think the level of sophistication of people in the financial planning field means there's a great opportunity for it to be stepped up, and I would think you'd be in a perfect position to do that because you understand both sides.

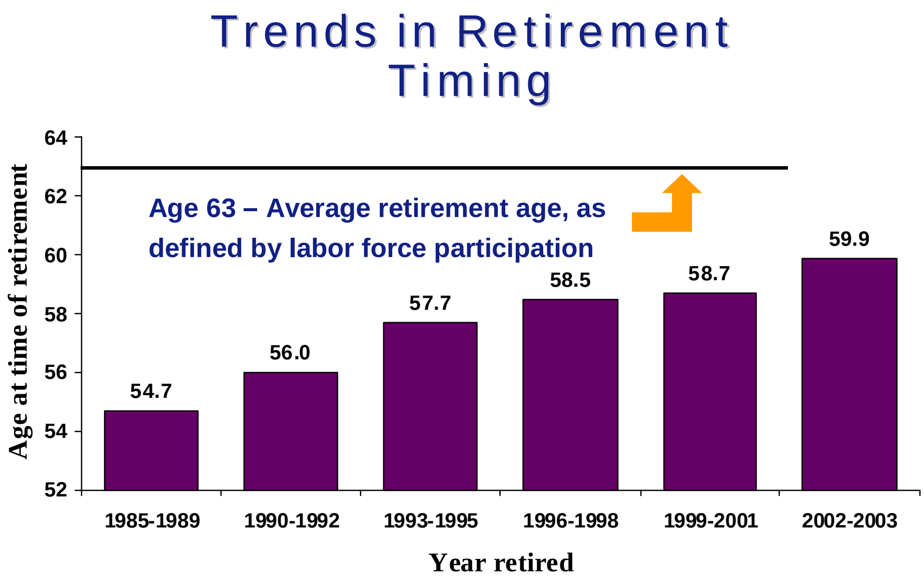
MR. VICTOR FRIED: What I've heard from the presentations is that on the individual side, we see that it's generally a good thing for individuals, if they do choose to do so and will do so for many reasons, to continue working or occupying themselves later in life, going through this phased retirement scenario. I think what we've also seen in the presentations, because of expected labor shortages in years to come, is that it would be good for the economy and for employers in general to allow this phased retirement to evolve. Yet what we see as an impediment to that are current government regulations in DB plans or in DC plans. There was a question that would address that situation: "What will the government do?"

The response I got from this was that the baby boomers are going to come up in force, they're going to try to influence legislation to that effect, and let's wait for that to happen. What we've seen is it's a good thing both for individuals and the economy at large. Shouldn't we as the SOA or as the profession try to take an initiative to move the government along and say, "You've got a situation. The economy would be better off for many reasons, and here's why?" Let's see what we can do to push the government along. Is there any thought to that process as to what we can do to get the government to analyze this and ask what it can do to eliminate these impediments?

FROM THE FLOOR: Good idea.

MR. BROWN: I know of nothing in terms of publishing papers or creating pressure. I'm from Canada. I'm more active in the CIA than the Academy. Who's here that might be able to comment on activities of the Academy in that area? I don't know of any. Certainly the SOA, I can tell you, does not have that as a plan of action, and we're the research group. We could start by doing the research and publishing the paper, and then the Academy could take it to the Congress and the representatives. I think that's a great idea, and I don't know that it's on anybody's radar screen at the moment.

Chart 1



Sources: Center for Retirement Research, Boston College; LIMRA International, Consumer Preferences for Retirement Planning Advice study (2003)