Post-Retirement Needs and Risks: What Do We Really Know?

PRESENTER
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Agenda

- Background
- Risk Survey and Public Attitude Research
  - Managing Risks
  - Shocks and Unexpected Expenses
  - Income and Spending
- Other Major Projects
- Conclusions

Note: Appendices includes methodology and more details about committee projects grouped by type

Context

- Personal responsibility for and complexity of retirement security increasing
- Financial literacy and planning horizons are a big problem
- Changing US retirement systems – More employer sponsored savings (DC) and fewer traditional pension plans (DB); less employer sponsored retiree health; many DB plans frozen
- Longer periods of retirement; definition of “retirement” changing
- Many Boomers not well prepared
- Planning horizons too short and many don’t plan
- As population ages, needs of the very old become more important to the nation and economic stability of government
- Uncertainty about future changes in tax policy, Social Security and Medicare

Background

Post-Retirement Needs and Risk Committee

- Society of Actuaries post-retirement risk research: nearly 20 years of work
- Overall program goal: Understand and improve post-retirement risk management
  - Focus on middle income market age 50 and older
  - Housing value is largest financial asset for many
  - Many lack adequate assets to maintain living standard
  - Decisions will require trade-offs on living standards
- Balance focus on understanding public action, solutions
- Focus on multiple-stakeholders

Risk Survey and Public Attitude Research Series
Public Attitude Research

- Society of Actuaries Committee on Post-Retirement Needs and Risks (CPRNR) has conducted research on public knowledge and attitudes since 2001
- 2015: 8th risk survey; 3rd set of focus groups; 1st set of in-depth interviews
- First time for: specific look at long-term retirees and attempt to look back at how retirees are doing vs. looking at what they plan to do
- Each survey combines “core items” with special subjects: reports published on special subjects

Content of Surveys

- Major repeating topics: what people see as top risks, how we retire, how risks are managed
- Special 2015 topics include:
  - Shocks and Unexpected Expenses (including healthcare and long-term care)
  - Spending Patterns & Debt
  - Living Longer & Impact on Planning (including delaying retirement & longevity)

Note: Complete list of special topics in Appendix

2015 Risk Research

- Three part approach
  - Survey
  - Focus groups – long-term retirees
  - Interviews – caregivers of long-term retirees who have had major problems and would not be represented in survey pool or focus groups
- U.S. only for survey, U.S. and Canada for focus groups and interviews

Caution: in interpreting results, particularly in area of shocks: remember that people who have experienced major health declines generally are not part of survey or focus groups – consider interview results

Big Picture: What we learned

- Findings from surveys, focus groups and interviews (including prior years)
  - Top risks – inflation, health and long-term care
  - Pre-retirees more concerned than retirees
  - Major methods of risk management – reduce spending, pay off debt
  - Gaps in knowledge persist
  - Planning horizons are too short
  - Pre-retiree expectations differ from retiree experience in some areas
  - RMDs are most common method of asset draw down; retirees do not want to take more than the RMD – the RMD is usually spent
  - Planning process based on near-term expected cash flows
  - Lot of consistency over time and between longer term retirees and shorter term retirees, but longer term retirees seem more self assured
  - Housing often biggest asset
  - Women more concerned than men
  - Lot of similarity between U.S. and Canada, except for health care issues (based on 2015 only)

Managing Risks in Retirement (Core continuing topic for surveys)

There is very little formal financial risk management by retirees.

- Few have long-term care insurance
- Few buy annuities to provide guaranteed lifetime income
- Few have thought out asset allocation plan
- Few do formal planning

Basic approach is to adjust to events:
Few plan for big expenses
Managing Risks in Retirement

We thought about it for myself and my wife. It can be disarmingly expensive, but then when you looked a little bit at maybe even buying the insurance for that, it’s not cheap either. It’s a rock and a hard place.

Female, Health Decline Group in Baltimore

It’s not a structured thing, but you have an idea. You know what you got to spend and you put your money in those places and you work towards that goal. And if you don’t use it, then you got to build something else that you can use.

Female, Health Decline Group in Baltimore

What We Learned

• Same top concerns (order changes) year by year: long-term care, inflation, health care costs
• Basic approach is to adjust to events…three primary strategies…reduce spending, eliminate debt, save as much as possible
• Pre-retirees more anxious about risks than retirees, and shorter-term retirees more anxious than longer-term
• 2015 research on shocks – new insights on what works over the long term and what doesn’t
• Retirees know how to do short-term budgeting, but many struggle with (or ignore) long-term budgeting and planning

Shocks and Unexpected Expenses in Retirement
Shocks and Unexpected Expenses

- New area of focus (2015)
- Rationale:
  - Retirees often plan to deal with things as they happen
  - Asset amounts are often constrained
- Big questions for CPRNR
  - What are people experiencing?
  - How do they deal with shocks and unexpected expenses?
  - What types of shocks are creating huge problems?
  - Are there strategies to deal with them more effectively?

Shocks and Unexpected Expenses in Retirement

- There are a number of unexpected expenses in retirement including:
  - Health care cost (in US, if no Medicare supplement insurance)
  - Cost of long-term care
  - Dental care
  - Inflation
  - Interest rates and market returns
  - Fraud/theft
  - Home repair
  - Family support
  - Widowhood
  - Divorce
- Most unexpected expenses are manageable, though they can occasionally be significant

Shocks and Unexpected Expenses in Retirement

- The most devastating expenses in retirement are long-term care and divorce
- Most retirees absorb and adapt to unexpected costs
- Some reduce spending to try to restore asset levels
- Loss of health and significant problems of children tend to have a much greater impact on retirees than the loss of asset level caused by unexpected expenses
- Many unexpected expenses can be planned for, but people often don’t plan for predictable large expenses

Shocks and Unexpected Expenses in Retirement

- Major home repairs/upgrades
- Major dental expenses
- Significant out-of-pocket medical/prescription expenses
- Drop in home value of 25%
- Illness/disability
- Running out of assets
- Sudden loss in total value of savings of 25% or more

More than 1 in 3 experiencing shocks had reductions in assets of 25% or more as a result of the shocks they experienced in retirement.
More than 1 in 10 with shocks had to reduce their spending by 50% or more as a result of the shocks they experienced.

Effect of Shocks on Spending

5% or more | 10% to 29% | 30% to 49% | 50% to 69% | 70% or more
--- | --- | --- | --- | ---
Retirees (n=733) | 14% | 11% | 16% | 20% | 39%
Retired Widows (n=245) | 13% | 12% | 10% | 8% | 9%

By approximately how much, if at all, did these events reduce the amount of money you (and your spouse/partner) are able to spend each month? Please consider the combined effect of these events. (Filter: experienced shocks in retirement)

What We Learned

- Retirees in survey are doing better than some of us expected, but three in ten have been severely impacted by shocks
- 2015 vs. 2013 focus groups – long-term retirees seemed more confident and less anxious than short-term retirees
- Some areas of “unexpected expense” are quite predictable – but timing is not and 60% of those experiencing shocks think nothing could have been done to lessen the financial impact
- Two very difficult areas – divorce and major long-term care events
- Health coverage protects retirees from health shocks – but only if they have Medicare supplement. Canadians are protected.
- Retirees are often very resilient, with 75% reporting they have managed the impact of shocks well or very well

Control of spending is a major financial planning tool (Repeated finding)

- Main effort is to maintain or grow asset level
- Many cut back spending significantly
- Most adjust spending after a major expense to make up the difference
- Many spend Required Minimum Distribution (RMD)
- Reduction of spending from “wants” to “needs”
The majority of retirees and retired widows spend about what they can afford.

At the end of the year, do you generally find you (and your spouse/partner) have spent…

Level of Spending in Retirement

<table>
<thead>
<tr>
<th>More than you can afford</th>
<th>About what you can afford</th>
<th>Less than you can afford</th>
</tr>
</thead>
<tbody>
<tr>
<td>11%</td>
<td>65%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Retirees (n=1,005)

Retired Widows (n=282)

About a fifth would be unable to spend more than $1,000 in an emergency without jeopardizing their retirement security.

Maximum Amount Could Spend in an Emergency

<table>
<thead>
<tr>
<th>&lt;$1k</th>
<th>$1-4k</th>
<th>$5-9k</th>
<th>$10-24k</th>
<th>$25k+</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>19%</td>
<td>14%</td>
<td>11%</td>
<td>11%</td>
<td>20%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Suppose something unexpected were to happen to you (or your spouse/partner) (IF WORKER: in retirement) that forced you to dip into your savings and investments to pay for it. What is the maximum amount you could afford to spend on the event, without jeopardizing your retirement security?

What We Learned

- Regular spending managed carefully by many retirees
- Retirees try to live from regular income and spend RMD
- Retirees carefully manage regular expenses – short term cash flow, but do not expect, or budget for, items such as dental and home repairs
- Retirees seek to not withdraw more than RMD – focus on preserving assets; withdrawing RMD often not viewed as drawing down assets
- Often reduce spending if needed, to preserve assets

Other Major Projects

Consumer and Advisor Education: Retirement Decision Issue Briefs for Individuals

- What we learned: people do not even know what the questions are
- Briefs provide guidance for major retirement decisions
- Eleven issue briefs written in everyday language

- Big Question: What Should I Retire?
- When Retirement Comes Too Soon
- Women Take the Wheel: Destination Retirement
- Deciding When to Claim Social Security
- Designing a Monthly Paycheck for Retirement
- Treating Asset Allocation Like a Roadmap
- Securing Health Insurance for the Retirement Journey
- Taking the Long-Term Care Journey
- Where to Live in Retirement
- Estate Planning: Preparing for End of Life
- Finding Trustworthy Financial Advice for Retirement and Avoiding Pitfalls
- Electing the Lump Sum in DB Plans under development in 2015

Retirement Income Solutions

- What we learned: Most plans do not offer lifetime income solutions
- Many experts believe that is an area for improvement in DC plans
- Barriers include fiduciary issues, concern about products, etc.
- Joint research with Stanford Longevity Center
- Published ‘The Next Evolution in Defined Contribution retirement Plan Design: A Guide for DC Plan Sponsors to Implementing Retirement Income Programs’
- Develops the case for employers to provide more support for retirement income solutions
- Subsequently published “Foundations in Research for Regulatory Guidelines on the Design & Operation of Retirement Income Solutions in DC Plans” to address the challenges related to possible safe harbor guidance from the DOL
Managing the Impact of Long-Term Care Needs and Expense on Retirement Security (Call for papers)

• What we learned:
  • Long-term care is very important to retirement security
  • Caregivers also have retirement security issues
  • A major long term care event requiring care provided by marketplace provider can devastate many families
  • Explored the impact of long-term care needs and expense on retirement security from a variety of aspects
  • Twelve papers were published in the monograph and awards were granted to five of these papers
  • Caregiving also was topic in 2015 Risk Survey

Be Careful about Software

• What we learned:
  • Lot of software is available
  • Can get very different answers to same questions from different programs
  • Quality control varies
  • User may not be aware of these issues
  • Research: Two Studies about Retirement Planning Software

Concluding Thoughts: What is Often Working Well

• Adapting to retirement financial shocks
• Adjustments of spending to preserve assets
• Use parental retirement experience to recognize risks and plan for those events
• Retirees planning for routine annual spending needs
• Limiting the draw down of assets in retirement

Concluding Thoughts: Areas for Improvement

• Planning by pre-retirees for retirement needs and income sources
• Planning for the impact of death on the surviving spouse/partner
• Planning for longevity
• Planning to work during retirement to supplement income
• Planning to postpone retirement to accumulate greater assets
• Budgeting for unexpected, yet predictable, shocks
• Avoiding debt and its impact on one’s ability to save for retirement
• Using insurance products to mitigate risks in retirement

Opportunities for Actuaries

• Joining in SOA committee work
• Sharing SOA research with your clients/employer and using it in your work
• Introducing retirement concepts to interested education and community groups
• Sharing expertise with other professionals servicing the employee and retiree population
• Assisting clients and human resource professionals to understand the issues and develop employee programs that build long-term retirement security
Opportunities for Actuaries (continued)

- Actuaries can add value by asking the right questions, assessing the risks and helping clients think about better solutions
- What happens when employees can't retire?
- How can current systems be modified to improve risk options?
- What products can better meet retiree needs?
- How should risk-protection systems change to meet the evolving work and retirement landscape?
- What expertise can we share with financial planning professionals as motivating individuals to plan for retirement is extremely difficult?
- Given how people make decisions, how do we help them better manage pools of assets prior to and in retirement?

How to Find SOA Research Reports and More Information

- All of the reports discussed are available on the Society of Actuaries website at:
- For more information about SOA Research – contact SOA Research Actuary Steve Siegel at
  - 847-706-3578
  - ssiegel@soa.org
- For information about the Post-Retirement Needs and Risks Committee – contact Anna Rappaport, Chairman at anna@annarappaport.com or Carol Bogosian at cbogosian@card.com
Methodology

In-depth Interviews
- The in-depth interviews were conducted to better understand the impact long-term care has on finances of long-term retirees
- 15 in-depth interviews: 10 American and 5 Canadian participants
- All participants served in financial management role for a parent or spouse in need of long-term care
- 5 men and 10 women interviewed

Overview of Research

ID 1. In-depth Interviews
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Additional Information on 2015 Focus Group Methodology

- 12 groups
  - Chicago
    - Females - Significant Health Decline since Retirement ($50,000 to $350,000 in Assets)
    - Males - Significant Health Decline since Retirement ($50,000 to $350,000 in Assets)
  - Baltimore
    - Females - Significant Health Decline since Retirement ($50,000 to $150,000 in Assets)
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Summary of Survey and Focus Group Projects

ID 2. Retirement Risk Survey
- Survey of public to learn about how they cope with retirement risks – telephone survey from 2001 to 2010, online survey starting in 2013
- Sample set to represent the middle-income American population
- Includes a mixture of repeated questions and special issues to be covered in more than one survey but after skipping a period
- One similar survey conducted in Canada

Focus groups on risk-related topics
- Focus groups with shorter term retirees (2015) to understand risk management and retirement decisions
- A report from focus group sessions with financial planners who are active in some part of the middle market

Approaching the Underserved Middle Market insights from (2012)
- A report from focus group sessions with financial planners who are active in some part of the middle market

Summary of Survey and Focus Group Projects (continued)

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Listing of Selected Committee Projects

- Survey and Focus Group Projects
- Public Education Projects
- Research Reports
- Retirement Planning Software Research
- Research Related to Lifetime Income
  - Including Plan Sponsor Guidance
  - Monographs and Paper Calls

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Summary of Survey and Focus Group Projects (continued)

- **Segmenting the Middle Market**: Segmentation methodology and implementation
  - Study conducted to understand the segment and develop strategies for middle market.
  - Based on demographic, financial, and lifestyle characteristics.
  - Segments identified:
    - Early 50s
    - Late 50s
    - Early 60s
    - Late 60s
  - Project completed in 2014.

- **Assurance Plan Preference Survey (2010)**
  - Survey conducted to understand preferences for various retirement plans.
  - Segments identified:
    - Traditional
    - Target date
    - Other
  - Project completed in 2010.

Summary of Research Reports

- **Models of Financial Advice for Retirement Plans: Considerations for Plan Sponsors (2010)**
  - Models developed to improve financial advice for retirement plans.
  - Considerations included:
    - Employee demographics
    - Retirement goals
  - Project completed in 2010.

- **Mid-Market Retirement Approaches for Markets and Near Rivers (2013)**
  - Approaches developed for mid-market retirement plans.
  - Considerations included:
    - Employer and employee demographics
    - Retirement goals
  - Project completed in 2013.

Summary of Public Education Projects

- **Managing Post-Retirement Risks (2013)**
  - Document identifying key risks and strategies for managing them.
  - Target audience: retirement advisors, financial planners.
  - Project completed in 2013.

Summary of Retirement Planning Software Research

- **Research on Retirement Planning Software (2010)**
  - Study conducted to evaluate retirement planning software.
  - Considerations included:
    - User interface
    - Accuracy
  - Project completed in 2010.
Managing the Impact of Long-Term Care Needs and Expense on Retirement Security (List of Papers)

- **Big Picture**
  - The Impact of Long-Term Care Costs on Retirement Wealth Needs
  - How American Society Will Address Long-Term Care Risk, Financing and Retirement
- **Caregiving, Family, Health**
  - Improving Retirement by Integrating Family, Friends, Housing and Support Lessons
  - The Personal Experience: The Retiree, the Caregiver and the Caregiving Conundrum: The Often Forgotten Piece of the Long-Term Care Puzzles
  - Long-Term Benefits May Reduce End-of-Life Medical Care Costs
- **Insurance**
  - An Overview of the U.S. LTC Insurance Market (Past and Present): The Economic Need for LTC Insurance, the History of LTC Regulation, the Evolution and the Development of LTC Product Design Features
  - Home Equity and At-Need Annuities – A Dynamic Long-Term Care Funding Duo
  - Ideas for the Future
    - Financing Future LTSS and Along Life through More Flexible 401(k)s and IRAs
    - The American Long-Term Care Insurance Program (ALTCP)
    - Home Equity: A Strategic Resource for Long-Term Services and Supports
    - An Affordable Long-Term Care Solution Through Risk Sharing