



Key Findings and Issues:

# Personal Risk Management

2013 Risks and Process of Retirement Survey Report



# Introduction and Background

**F**or more than 15 years, the Society of Actuaries (SOA) has focused on the study of post-retirement risks and how they are managed. The 2013 Risks and Process of Retirement Survey is the seventh biennial study of public perceptions related to such risk conducted on the SOA's behalf by Mathew Greenwald and Associates, Inc. The survey was conducted during a period of slowly recovering housing values and employment. However, concerns about the economy, public policy, the federal deficit, and programs for supporting retirement remained high. The survey was preceded earlier in 2013 by a series of eight focus groups, which probed participants on their decision process for retiring and their views on managing assets after retirement.

This report presents findings from the 2013 Risks and Process of Retirement Survey, specifically those relating to personal risk management. Plans made and actions taken throughout people's formative working lives develop their "life portfolios." An important part includes making provisions for their senior years. These steps and efforts continued beyond their working lives to optimize physical, cognitive, emotional and financial well-being comprise their personal management of retirement risk. Such measures include, but are not limited to, when they choose to retire and take Social Security; their spending habits; how they manage debt; how they plan living arrangements and utilize the equity in their homes; the financial products they purchase; and how they employ financial planning services.

The report provides quotations from the series of focus groups where appropriate to illustrate the findings and addresses factors relating to retirement risks and how people attempt to manage them. Additional reports provide an overview of Americans' perceptions of the major retirement risks, as well as a more detailed examination of the phases of retirement and special issues for women.

The 2013 Risks and Process of Retirement Survey is designed to evaluate Americans' awareness of retirement risk, how their awareness has changed over time, and how these perceptions affect the management of their finances. Unlike the previous six iterations, which were conducted by telephone, this survey was conducted through online interviews. As part of the survey, 2,000 adults ages 45 to 80 (1,000 retirees and 1,000 pre-retirees) were interviewed in August 2013. An additional 200 interviews were collected among retired widows. Individuals were selected for participation using Research Now's nationwide online consumer panel.

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 the results do not provide specific insights concerning high net-worth individuals. Only 5 percent of pre-retirees and 12 percent of retirees report having investable assets of \$1 million or more.

The series of eight focus groups was conducted in May 2013 in four locations: Baltimore, Chattanooga, Chicago and Phoenix. The study was designed specifically to examine those who were not forced to retire because of ill health or disability, but who decided to retire when they did. The topics examined focused on the decision to retire and participants' views on managing their assets after retirement. The research was limited to retirees who have some assets, but also some financial constraints. All of the participants in the focus groups had between \$50,000 and \$400,000 of investable assets. None had income of over \$2,500 a month from rental properties and defined benefit plans. That restriction allows the research to focus on people with some financial constraints: the participants had more financially complex decisions about retirement than people with considerably higher investable assets. Groups were separated by asset level and by gender.

To further the understanding of key issues as well as changes in perception of risk, this series of surveys includes new questions with each iteration, and not all questions are repeated from year to year. For a balanced perspective, the discussion sections in this report include input from representatives of all organizations that supported the studies and material from other related research.

## Report Organization

This report provides the response to selected questions from the 2013 Risks and Process of Retirement Survey. For each question, the results are provided with a brief explanation, and for some questions, a quotation is provided from the focus groups to give life to the experiences of American retirees. It should be noted that the survey includes both retirees and pre-retirees, but the focus groups included only retirees. Commentary from the SOA project oversight group is provided. The responses to the questions and the commentary are also supplemented by perspectives from some of the project oversight group members. ▶▶



# Perspective

**W**hile personal risk management is covered to some extent in all of the surveys, it is a major topic of focus in 2013.

The surveys plus the focus groups and the other work of the SOA's Committee on Post Retirement Needs and Risks offer several important perspectives relevant to this topic:

- Major risk management strategies are reducing spending, saving more, and reducing debt. These strategies have appeared repeatedly in this work.
- Planning horizons are relatively short, often averaging about 10 years. For most people, this is much shorter than the rest of their life. A common way to deal with shocks cited in the focus groups is to try to address them when they happen.
- Planning tends to be relatively short term and cash flow focused. A major means of adjustment to change is adjusting spending.

- Many retirees seek to maintain their assets for emergencies rather than having a systematic plan for spending assets down. Participants in the recent focus groups generally were trying to maintain asset levels.
- Retirement timing is a major decision affecting well-being in retirement. However, as shown by the recent focus groups, many voluntary retirees felt “pushed.” It is no surprise that retirees retired at a median age of 58 compared to a median age of 65 at which pre-retirees expected to retire. It is unclear to what extent the retirees who felt pushed would have continued to work longer with better workplace circumstances and options.
- Use of financial products for risk protection is not a major part of the retirement plan for many retirees.
- Although the value of housing is a major part of the assets of many retirees, for most retirees, spending down housing values is not part of their retirement plan. Many retirees have paid off or seek to pay off their mortgages. (Some retirees, however, may have already downsized their housing.)
- Deferring the age at which Social Security is claimed and retiring later have been identified as very important strategies. Relatively few individuals choose to claim Social Security later. It is unclear how many people are aware of the potential implications of claiming at different ages. Other research shows significant misunderstandings of Social Security benefits. Related SOA research shows gaps in knowledge about the impact of retiring later.
- Use of planners is limited among survey and focus group respondents. Many of them have relatively low financial assets and would not fit into the target market of most planners. They also would not have resources to pay for such services.

Retirement risk management can be considered in terms of challenges and perceptions, or it can be defined in terms of solutions. Ideally, it is developed throughout one’s formative years as a combination of both—a solution-based response that anticipates the challenges of retirement.

The work of the Committee on Post-Retirement Needs and Risks attempts to balance focus on solutions with focus on understanding the issues. Unfortunately, for many of the challenges there is no agreed-on “best solution.” Individual preferences differ, but professional opinion also differs. Many decisions involve trade-offs. The series of decision briefs produced by the committee helps individuals and their advisers define the issues and questions and offers considerations. The committee paper, “Middle Market Retirement Approaches for Retirees and Near Retirees,” recommends a range of solutions for families across a wide spectrum of financial resources, but focuses primarily on the “Middle Mass” of individuals and families between the 25th and 75th percentiles of annual income. In 2010 nationally, this spanned a range of annual household income from \$25,000 to \$90,000. It offers a system to classify the approaches, but there is no general consensus on this system. The committee continues to work on building more comprehensive solutions.

Some observations about solutions include:

- Holistic thinking is critical. One gets to different answers when considering issues on an integrated basis that incorporates decisions on financial and non-financial matters.
- For most households with limited financial resources, these decisions involve trade-offs. This is all the more true for retirees living on fixed incomes.
- Some decisions are irrevocable, such as electing the form of income stream under a defined benefit plan payout, whereas others are not.
- Shocks can have a huge impact when they occur, but too many plans do not take them into account.
- Most people do not have enough money for ideal solutions.
- For many of the issues facing retirees, such as consideration of annuitization, there is no consensus on the right answer. People considering income in retirement may not even be aware of the options available.
- As with most plans, the earlier they are made and the more thoroughly thought-out they are in preparation for retirement, the more effective the solutions are likely to be and the greater will be the range of options available. Anticipation of and good planning for retirement often make the difference between living one's senior years well and merely coping with a survival strategy.
- Retirement plans should be revisited periodically, even after retirement. While a "set it and forget it" plan is not the best strategy, attention should be paid to solutions that will minimize the need to make complicated decisions at a time when cognitive abilities may have declined. ▶▶



Notes

# Retirement Risk Strategies— A Comparative Snapshot

## Survey Findings

As in previous iterations of the risk survey, both pre-retirees and retirees tend to focus on strategies of saving and spending to manage the risks associated with retirement. Almost all pre-retirees (95 percent) and retirees (92 percent) report they have already eliminated or plan to eliminate all of their consumer debt. Nine in 10 pre-retirees (93 percent) and 8 in 10 retirees (81 percent) say they already have or plan to save as much as they can, while similar proportions have already cut back or plan to cut back on spending.

Pre-retirees and retirees are much less likely to turn to risk-pooling strategies to manage retirement risks (other than health insurance). Half of pre-retirees (52 percent) and one-quarter of retirees (23 percent) indicate they plan to or have already postponed taking Social Security. Roughly one-third each report buying an annuity or choosing an annuity option from an employer plan.

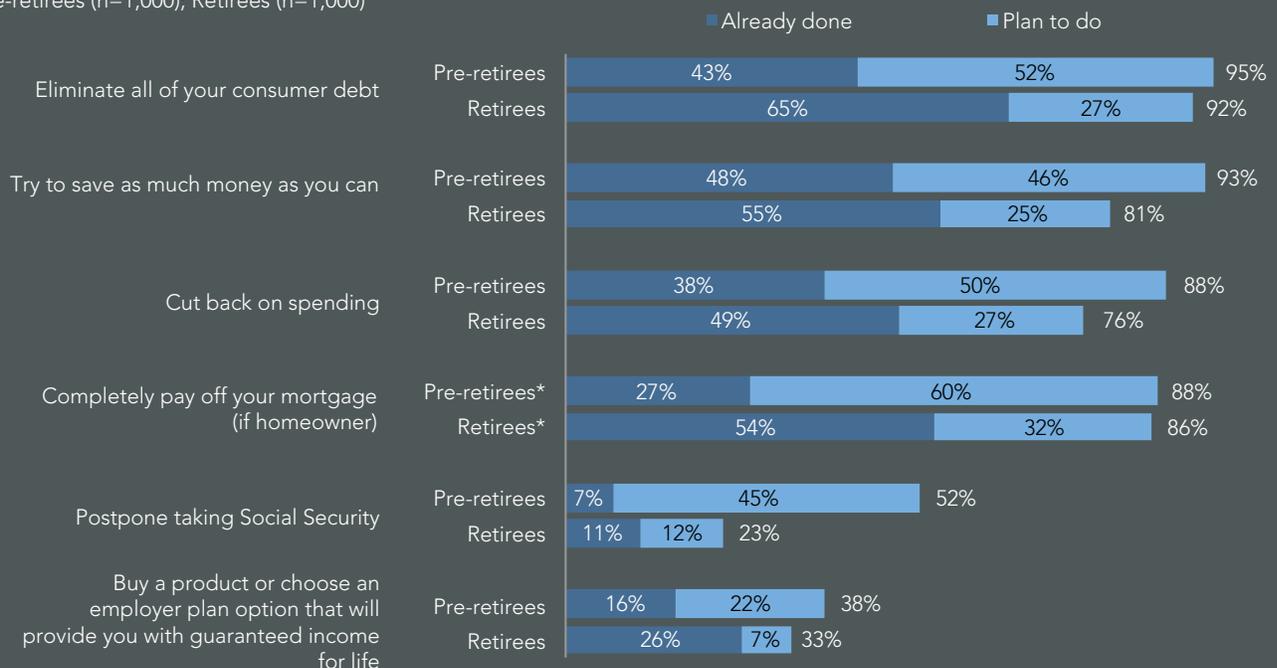
## Quotes

“But you’re also capable of adjusting. If you see it’s getting out of hand, you can always just scale it back.” **Retired male, Chicago**

“I was 63 and probably close to ½. But I lost those five friends of mine, and they hadn’t collected Social Security. I thought to myself that I pretty much live the same lifestyle they did, so I probably ought to go ahead and get what I can get while I can get it.” **Retired male, Phoenix**

Please tell me whether you (and your spouse/partner) have done that, plan to do that in the future, or have no plans to do that.

Pre-retirees (n=1,000); Retirees (n=1,000)



## Strategic Retirement Planning vs. Merely Coping

- Questions similar to this have been asked throughout the survey series. The responses are generally similar to the current responses. Debt management, cutting expenses, and saving more are leading strategies. Buying financial products except for supplemental health insurance is far behind.
- As with the difference between pre-retiree expectations on the age of retirement (median 65) and the age at which retirees actually did retire (median 58), there was also a huge disconnect between pre-retiree plans to postpone Social Security (52 percent said they intended to do so) and those (23 percent) who actually did. Postponing from age 65 to age 70 results in as much as a 32 percent higher monthly benefit for those able to defer for those five years.
- The cumulative research makes it clear that it would be better for many people to have tools for longer-term and more comprehensive evaluation of their retirement strategies. It appears that many people plan for spending on the basis that nothing goes wrong, rather than building risk into their planning. They then try to hold on to assets to cover what can go wrong.
- Throughout this and other reports in this series, frequent reference is made to the disconnect between what pre-retirees say they expect to do and what those already retired report having actually done. However, in one key respect, there is remarkable agreement—namely between the 50 percent of pre-retirees who say that they expect to cut back on their spending and the 49 percent of retirees who say they have already done so. This may reflect a number of features of personal risk management, perhaps principally that day-to-day spending is a habit that most people understand and over which they have more control, in contrast with decisions as to when they retire and estimates as to how long they may live. In the case of retirees, it also reinforces the observation that once they are reconciled to their income limitations, seniors are quite resilient in matters like cutting back on spending. ▶▶

### Notes

# Overall, pre-retirees and retirees tend to look only 10 years into the future when making important financial decisions.

## Survey Findings

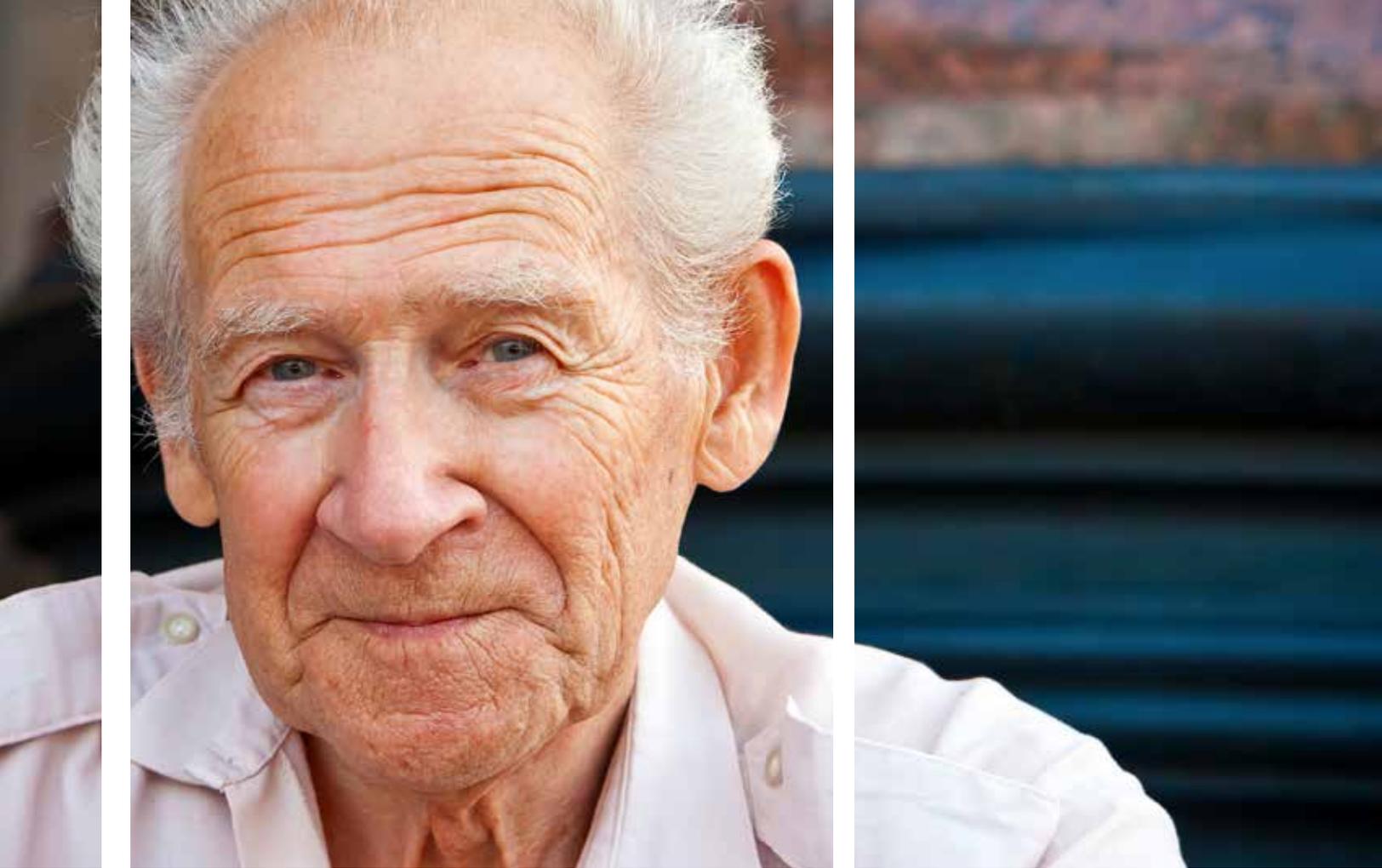
Both pre-retirees and retirees have a median financial planning time horizon of about 10 years. However, for both groups, fewer than 1 in 10 (7 percent of pre-retirees and 8 percent of retirees) don't think ahead at all and 3 in 10 (27 percent and 29 percent) say they haven't thought about it.

## Discussion

The focus groups indicated that women are much more concerned about the future, and some men are not worried at all. They also indicated that for many people, planning means a focus on cash flow next year or in the next few years. Respondents often seemed positioned to deal with problems as they happen, adjust spending, and not do much formal risk management. For many retirees, their "long-term plan" consisted of little more than trying to hold onto assets—both cash and house values. ▶▶

When you (and your spouse/partner) make important financial decisions, such as when you think about whether you can afford to retire or to purchase a new home/such as when you think about your retirement finances or a large purchase, about how many years do you look into the future?





Notes

# While many pre-retirees expect to delay retirement, plans can change as they get closer to retirement.

## Survey Findings

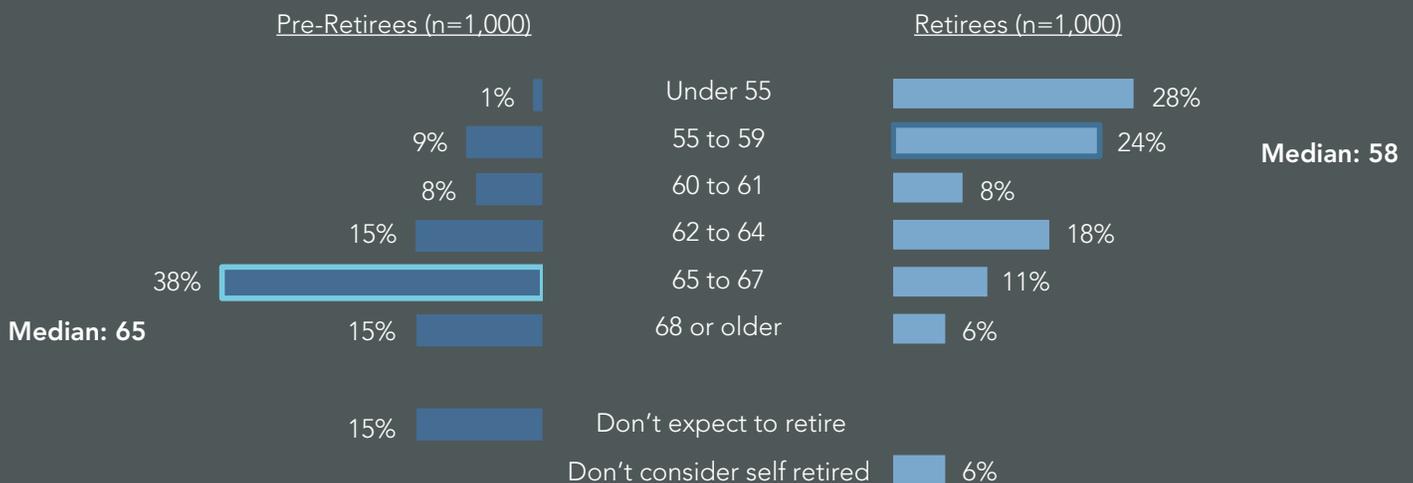
Overall, pre-retirees plan to retire at a considerably older age than retirees actually retired. Although just over half of retirees (52 percent) retired before age 60, about the same proportion of pre-retirees (53 percent) expect to retire at age 65 or later. Another 15 percent of pre-retirees do not expect to retire at all.

## Quotes

"Because after college you start working and I'm thinking 65 is going to be the magical number. So I've got 30 more years or I've got 20 more years or whatever. So in my mind early in my career, I was thinking it would be 65. I ended up doing it at 61."

**Retired male, Chicago**

## At what age (do you expect to/did you) retire or begin to retire from your primary occupation?



## Retiring voluntarily or being “pushed” out of a job?

- The focus group findings offer insights that help explain this large difference. Many people retire involuntarily, and the focus groups showed that among those who retired voluntarily, many felt they had been “pushed” out of the workplace. Primary reasons for the “push” were job problems, including cultural issues and difficulties in doing the job, health, and family needs. The retirement age situation is particularly alarming considering the relatively low asset levels of many of the individuals. However, some will retire, but continue to work on a limited basis during retirement.
- One factor contributing to the difference between the age at which pre-retirees said they expected to retire—a median of 65—and when retirees actually did—a median of 58—is largely the time difference between when those in their late 40s, early 50s, still working and envisaging what retirement might be like, gave their expectations and when those in their 60s and 70s were actually experiencing retirement and accommodating to its realities. Pre-retirees were heavily concentrated in the age group 45 to 54—their median age was 53; retirees were more spread out in age, principally from 55 to 80, with a median of 65. ▶▶

### Notes

# A majority of pre-retirees, but fewer retirees, express concern about their finances.

## Survey Findings

Two in 3 pre-retirees (64 percent) show some concern about their finances in the first five years of retirement. Retirees show less concern overall about the state of their current finances, with 4 in 10 reporting to be at least somewhat concerned (43 percent).

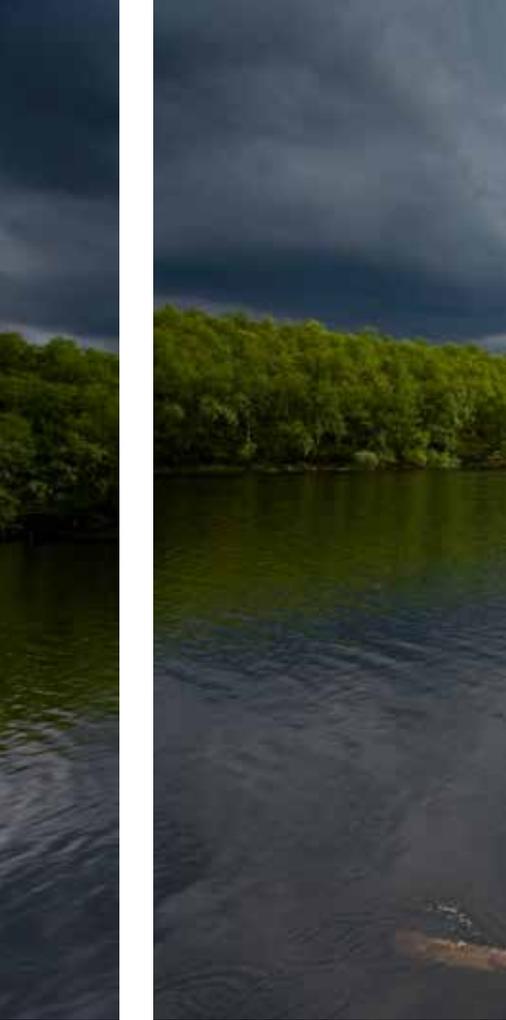
They show slightly more concern about their long-term financial future. Three in 4 pre-retirees (76 percent), but only half of retirees (49 percent), are at least somewhat concerned with their long-term financial future.

## Discussion

For some people, a lack of concern reflects a failure to focus on reality. However, many have shown a consistent tendency to accommodate to reality once retired. The project oversight group members who observed the focus groups found that a number of men seemed somewhat unconcerned to the challenges they face whereas the women were much more concerned. The greater concern on the part of pre-retirees is consistent with other questions and prior surveys. ▶▶

## Overall, how concerned are you about your ...?





Notes

# Retirement Risk—A Snapshot of Concerns

## Survey Findings

The retirement risk that most concerns both retirees and pre-retirees is keeping the value of their savings and investments up with inflation (77 percent of pre-retirees and 58 percent of retirees very or somewhat concerned). Rounding out the top three concerns is having enough money to pay for adequate health care (73 percent and 46 percent) and long-term care (68 percent and 52 percent). Two-thirds of pre-retirees and 4 in 10 retirees also express concern about the possibility of depleting their savings (66 percent and 41 percent) and maintaining a reasonable standard of living for the rest of their life (65 percent and 41 percent).

The hierarchy of concerns found in this survey is similar to those found in previous iterations of the study.

## Quotes

“Everything in general. Food has gone up. Clothing. If you want to go get something done at the cleaners, three months ago it was \$0.80 cheaper than it is now to have one garment cleaned.”

Retired female, Chicago

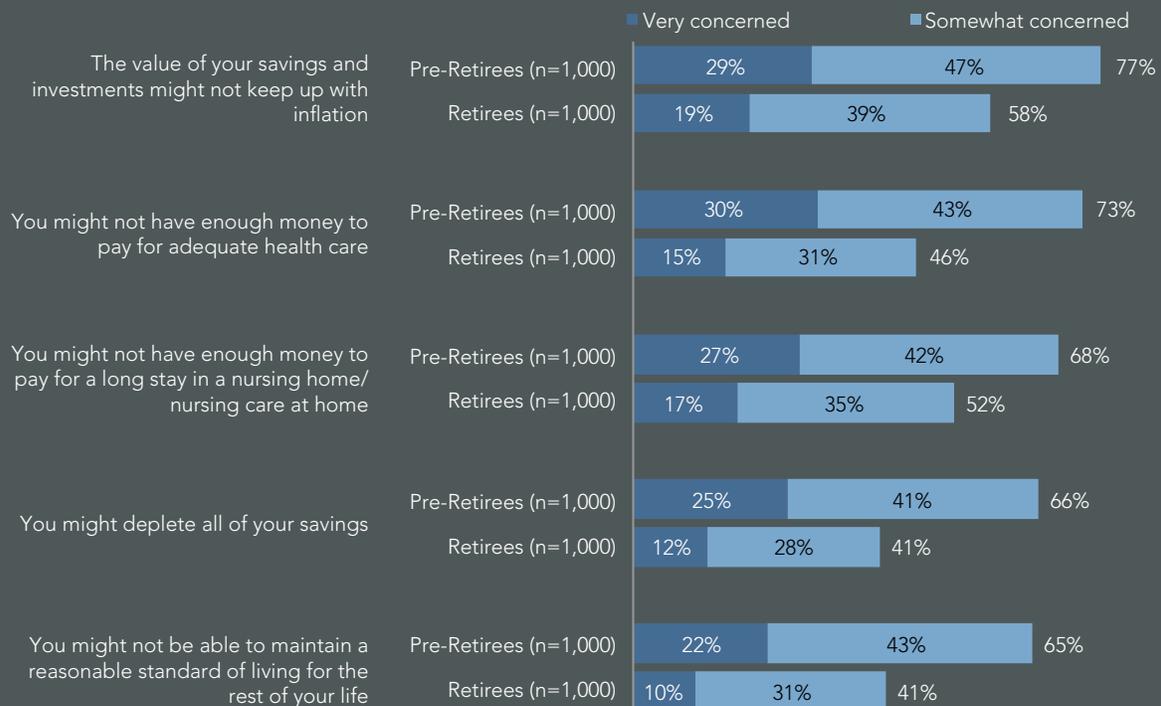
“My main concern is the expenses I have no control over. In the past year, my long-term care insurance, my taxes, my homeowners have all gone up. I can’t do anything about that.”

Retired male, Chicago

“My main financial concern is I am really concerned about all of our health care.”

Retired female, Chattanooga

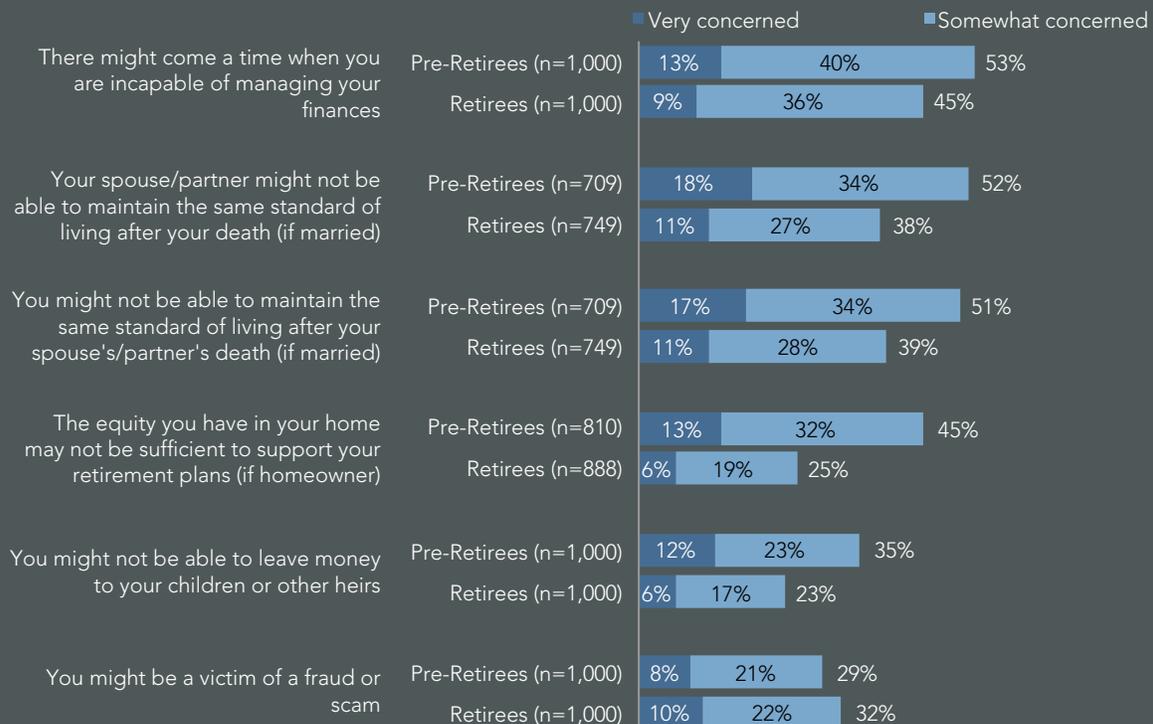
## How concerned are you that ... (in retirement)?



## Top retirement concerns remain consistent over time.

- Pre-retirees have consistently been more concerned than retirees for all of the years of the survey. The top three concerns have been the same—inflation, ability to pay for health care, and ability to pay for long-term nursing care—although the order has changed from year to year. These are closely followed by concern about depleting retirement savings and being unable to maintain a reasonable living standard. Over the nearly 15-year period of these surveys there has been a lot of consistency with regard to risk concerns with increasing concerns after big economic events, followed by a return to prior levels.
- The perceptions do not reflect the importance or likelihood of specific risks. Some risks that do not get much attention are very important.
- The project oversight group observes that although Medicare covers a great deal of expense for acute health care and there is no analogous coverage for long-term care, pre-retirees are more concerned about health care and retirees are nearly as concerned about health care. Families provide a lot of care and Medicaid pays for significant amounts of long-term care, but only after assets are exhausted. Some people are not aware that Medicare covers only very limited long-term care, and most private health insurance does not cover much long-term care either. These may be some of the reasons for the relative levels of concern. The cost of a major long-term care event can be huge, particularly for people without family caregivers. ▶▶

## How concerned are you that ... (in retirement)?



# The majority of pre-retirees and retirees plan to maintain or grow their financial assets in retirement.

## Survey Findings

Only about 2 in 10 pre-retirees and retirees (22 percent each) say they plan to spend down their financial assets in retirement. Instead, the majority plan to maintain or even grow their financial assets. However, 20 percent of pre-retirees and 13 percent of retirees state they have no plan for managing their financial assets.

## Discussion

These findings are compatible with the focus group findings. Such a strategy, if it works, will help prevent running out of money. That, however, does not provide any insight into how much reduction there will be in standard of living for the ones who do. ▶▶

## Which one of the following best describes how you plan to manage your financial assets (in retirement)?



# One-third of retirees owe money on a mortgage. Of these, one-third do not expect to pay it off until after age 70.

## Survey Findings

Among the 35 percent of retirees who owe money on a mortgage, 33 percent do not expect to pay it off until after age 70. Another third (33 percent) are unsure of when they will have paid off their mortgage.

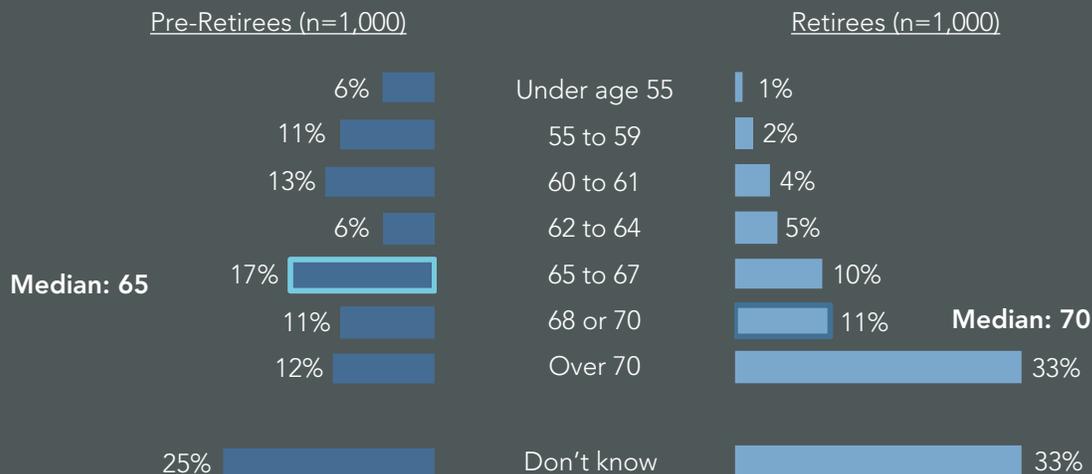
Nearly 6 in 10 pre-retirees (57 percent) owe money on a mortgage. Of these, just 12 percent expect to carry it past age 70. However, 25 percent do not know when they can expect to have it paid off.

## Discussion

Many people believe that it is smart to pay off a mortgage before retirement, but others feel it is a matter of an investment decision. Debt after retirement can be a significant problem, depending on the resources available to the retiree and the interest rate on the unpaid balance. This is an area for ongoing attention. ▶▶

## At what age do you expect to pay off the mortgage on your primary home?

Among homeowners with a mortgage



# Among homeowners, approximately 6 in 10 pre-retirees and retirees view their home as an emergency fund.

## Survey Findings

Pre-retirees and retirees who own their home most often say they want to keep their home because it is comfortable and familiar, but approximately 6 in 10 think it is at least somewhat important to keep their home so they can use it as an emergency fund, if necessary (62 percent of pre-retirees and 58 percent of retirees). Less than half say it is at least somewhat important to keep their home for an inheritance to their children or other family members (46 percent and 48 percent).

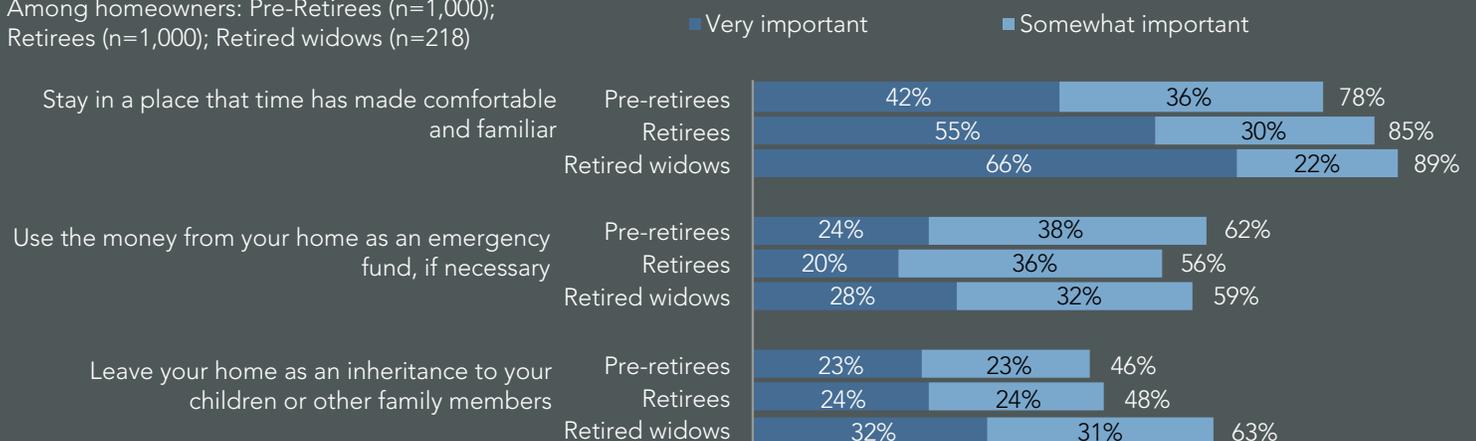
## Quotes

"We're staying now. We may move in the future, but right now we like where we're at." **Retired male, Chicago**

"I think it's a last resort for if I need long-term care or something like that." **Retired female, Chattanooga**

## How important is it for you (and your spouse) to keep your current primary home so that you can ...?

Among homeowners: Pre-Retirees (n=1,000); Retirees (n=1,000); Retired widows (n=218)



## Discussion

- Housing is a major asset for many families. For middle American and mass middle families nearing retirement, non-financial assets are significantly greater than financial assets on average. The SOA study series, "Segmenting the Middle Market Retirement Risks and Solutions," documents this for middle income and middle affluent couples and single households.
- Given that housing is such a major part of assets, there is a need to better define the options for integrating housing into retirement planning.
- Greater recognition is also needed that housing values can rise and fall, and that housing is an illiquid asset.
- Housing can be integrated with care and support services. Specialized housing often offers some support services. However, the vast majority of retirees live in their own homes.
- As previously noted in this report, more than one-third of all retirees still carry mortgage debt, and a third of them have no plan as to when it will be paid off. Another third expect to pay off that debt, but not until after age 70. There simply are no hard and fast rules as to when housing debt should be repaid; much depends on the household's overall financial resources and ability to carry the interest cost on the unpaid mortgage. If the interest rate is lower than the return being achieved on financial assets such as stocks and bonds, then a rational case may be made for paying off the mortgage over its term, especially where interest paid is being included in itemized tax deductions. Going counter to the move to pay off debt early in retirement is the increasing attention being given to "reverse mortgages," a relatively new financial offering that, in effect, is a remortgaging of homes with equity value. For cash-strapped seniors it is often a last resort and the only resource remaining to tap for liquid funds. ▶▶

# Despite a short planning horizon, both pre-retirees and retirees report they try to plan for the future.

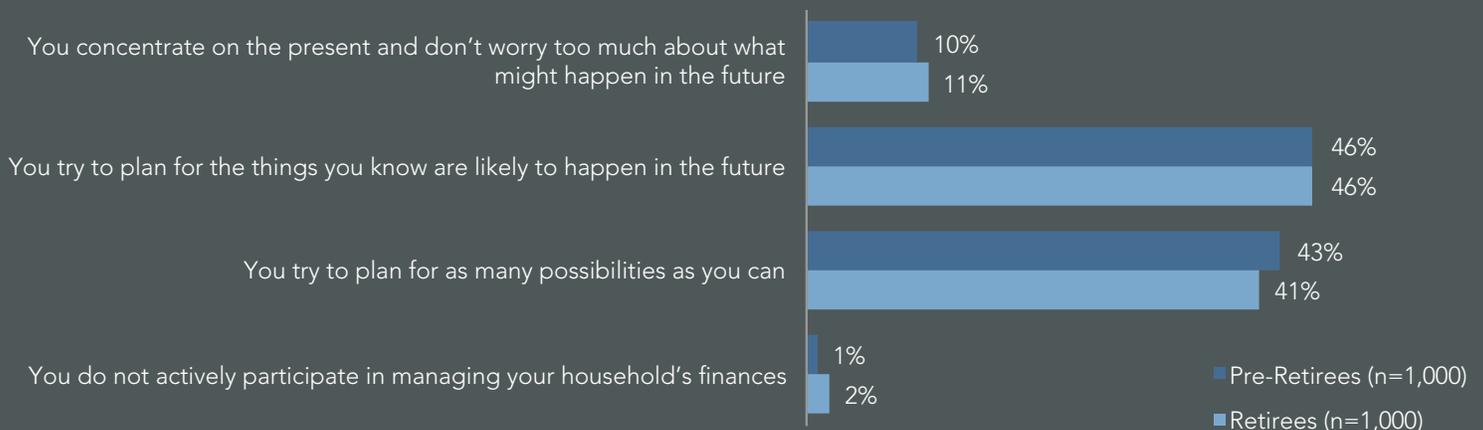
## Survey Findings

Pre-retirees and retirees describe their attitude about managing finances in retirement as “planning-oriented.” Roughly half of pre-retirees and retirees (46 percent for each) say they try to plan for the things they know are likely to happen in the future. Similarly, about 2 in 5 of each group (43 percent of pre-retirees and 41 percent of retirees) try to plan for as many possibilities as they can.

## Discussion

Most people have limited resources. Although many things can happen during retirement, one never knows which will happen, in what order, or when. It is extremely complex to try to plan for multiple risks, and it is not surprising that many people are not able to build a plan that provides a solution for the multiplicity of risks. More use of financial products would help with some situations but not others. ▶▶

## Which one of the following best describes your attitude about managing your finances in retirement?



# Approximately half of pre-retirees and retirees consult with a financial planner or adviser.

## Survey Findings

Barely half of pre-retirees (48 percent) and just over half of retirees (55 percent) report they consult with a financial planner or adviser who helps them make decisions about their financial or retirement planning.

## Discussion

The project team believes that the middle-income market is underserved when it comes to financial planning for retirement. This is a challenging area as the issues facing middle-income Americans are different from those facing high net worth individuals and there is no agreement about the best approach to dealing with such issues. The cost of the services is also a barrier for the middle income. ▶▶

About how often do you (and your spouse/partner) consult with a financial planner or adviser who helps you make decisions about your retirement/financial planning and is paid through fees or commissions?



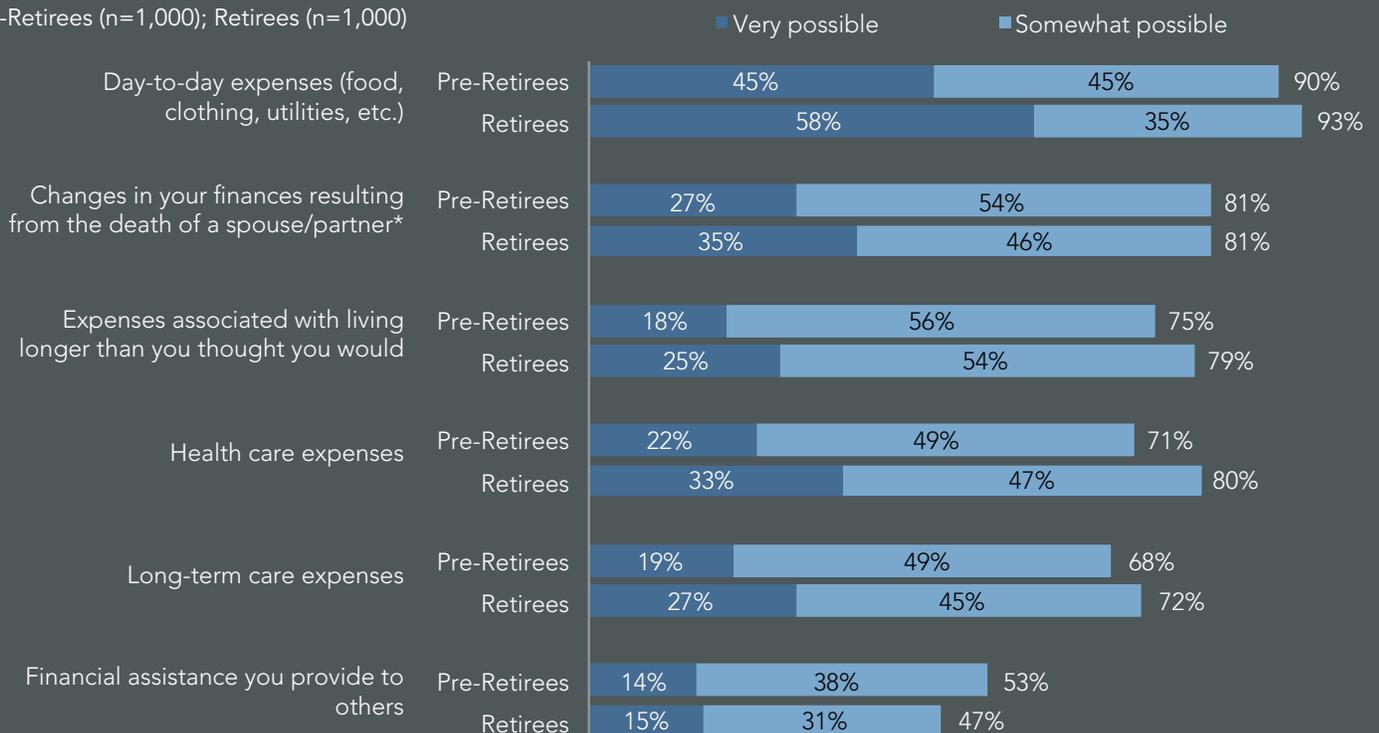
# Pre-retirees and retirees think it is possible to plan for day-to-day expenses.

## Survey Findings

Overall, pre-retirees and retirees think it is possible to plan for day-to-day expenses in retirement, although only about half (45 percent of pre-retirees and 58 percent of retirees) think that this planning is very possible. Confidence in the ability to plan decreases for less routine expenses and changes. This is especially true for the percentages saying it is very possible to plan. Approximately 3 in 10 say it is very possible to plan for changes in finances resulting from the death of a spouse or partner (27 percent of pre-retirees and 35 percent of retirees who are married or living with a partner). Fewer think it possible to plan for the expenses of living longer than expected (18 percent and 25 percent), for health care expenses (22 percent and 33 percent), or for long-term care expenses (19 percent and 27 percent).

## How possible do you think it is to plan for the following (in retirement)?

Pre-Retirees (n=1,000); Retirees (n=1,000)



\*Pre-Retirees (n=709); Retirees (n=827)



## Discussion

These are new questions in the 2013 risk survey. These questions are particularly interesting in light of the focus group findings, which indicate that much of what respondents consider “planning” is focused on shorter-term cash flow management. In this context, predictable day-to-day expenses and some discretionary expenses are the easiest to plan for. For example, a household may set aside a certain amount of money for travel and then it can decide to travel based on what it plans.

A longer-term perspective on retirement planning, one commencing earlier in an individual’s or a couple’s formative working lives, would more likely lead to a situation at retirement in which households have more control in balancing their expenses relative to their income. A 2013 study by the Employee Benefit Research Institute (EBRI) showed over 40 percent of all households headed by someone over age 65 to be in a “deficit” position of expenses exceeding income. However, this percentage has been on the decline in recent years. Not surprisingly, the percentage of senior households in expense “deficit” was extremely high (66 percent) for the lowest income quartile, and declined rapidly down to a mere 6.6 percent for the top income quartile. ▶▶

## Notes

# Planning for the death of a spouse/partner most often focuses on assets and income.

## Survey Findings

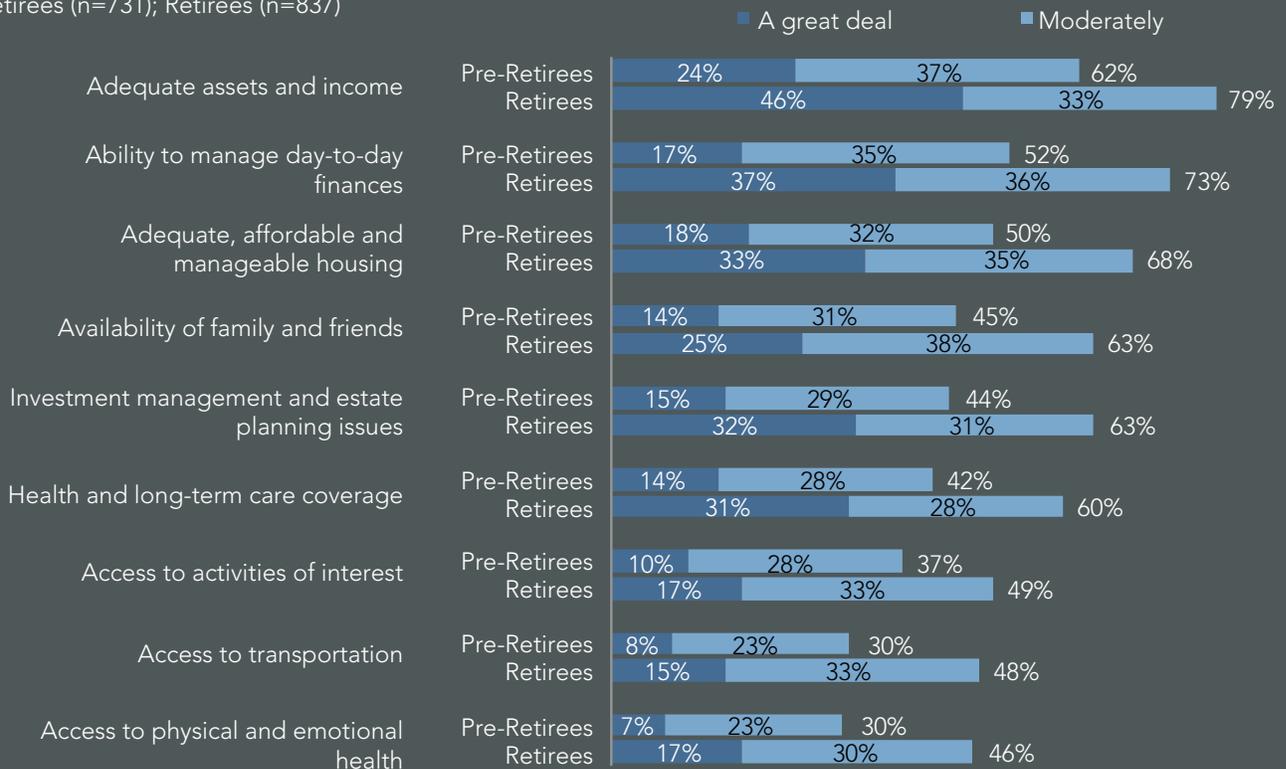
When it comes to planning for issues following the death of a spouse or partner, pre-retirees and retirees most often report planning a great deal or moderately for adequate assets and income (62 percent of pre-retirees and 79 percent of retirees who are married or living with a partner). Half of pre-retirees and 7 in 10 retirees also say they have planned for the ability to manage day-to-day finances (52 percent and 73 percent) and adequate, affordable and manageable housing (50 percent and 68 percent). Fewer plan for other issues that can arise after the first person in a couple dies.

## Discussion

This is a new area of exploration in the 2013 survey. This is particularly interesting as single persons are generally less well off than couples. Questions in prior surveys indicated that not very many people thought that the survivor would be worse off after the death of one member of a couple. This is an area where more planning is needed. ▶▶

## To what extent have you and your spouse/partner planned for the following issues that often arise (in retirement) after the first person in a couple dies?

Among those married/living with partner:  
Pre-Retirees (n=731); Retirees (n=837)





Notes

# Most anticipate they will not live as long as the longest-living member of their family.

## Survey Findings

Although half of pre-retirees and retirees knew family members who lived into their 90s, few expect to live that long themselves. Only one-quarter say they will live to age 90 or later (23 percent of pre-retirees and 26 percent of retirees). Another 2 in 10 expect to live to between 85 and 89 (22 percent and 19 percent). A sizable percentage are unable to estimate how long they are likely to live (28 percent and 37 percent).

## Quotes

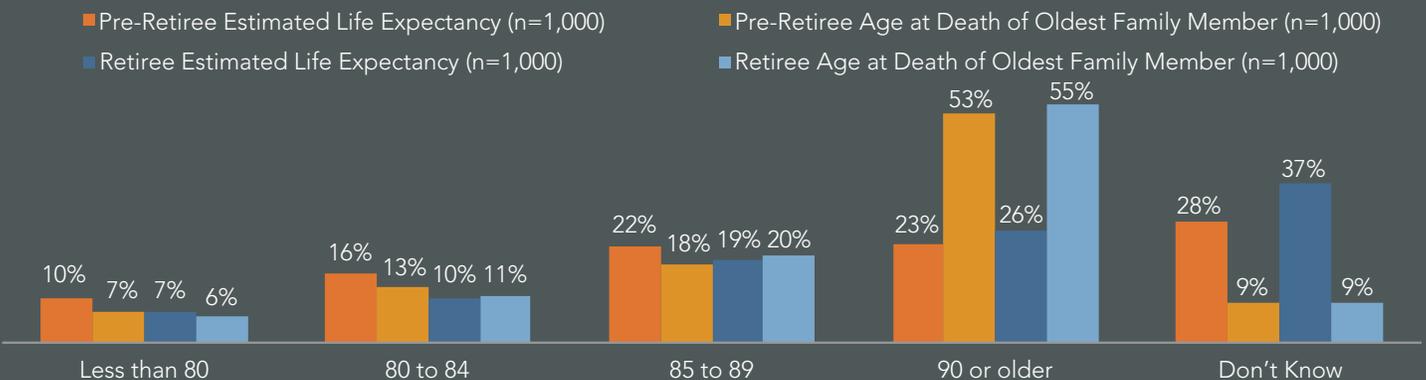
"I just wrote down the numbers when [my relatives] passed away. I came up with an average. Okay, what's my general health? That's how I figured it."

**Retired male, Chicago**

"It means nothing. I'm going to live to however long I'm going to live. It means nothing."

**Retired female, Chicago**

Until what age do you think you can expect to live?  
Please think about the person you knew in your family who lived the longest. How old were they when they died?



## Discussion

- As people are living longer, this is an area of growing importance. Of those who plan, most have a planning horizon that is less than the rest of their lives. While risk management products are available to guarantee income for the rest of life, most people do not use them.
- For people who preserve assets and live on Social Security plus the other regular income they have, this is not a major problem. For people who are spending down assets, this can be a major problem.
- This issue is most likely to be a concern for the longest-lived member of a couple, most often the wife.
- Survey respondents have consistently shown a reasonably good understanding of life expectancy for people their age, but have little appreciation for the considerable variation around that number, which is only an average for their age group, or the financial consequences of living several years beyond it. At age 65, for example, men can expect to live another 17 years, women 20. However, one-quarter of men aged 65 will survive to age 88 and one-quarter of the women to 91. ▶▶

Notes

# More than one-quarter expect to contribute toward caregiving expenses of a relative or friend.

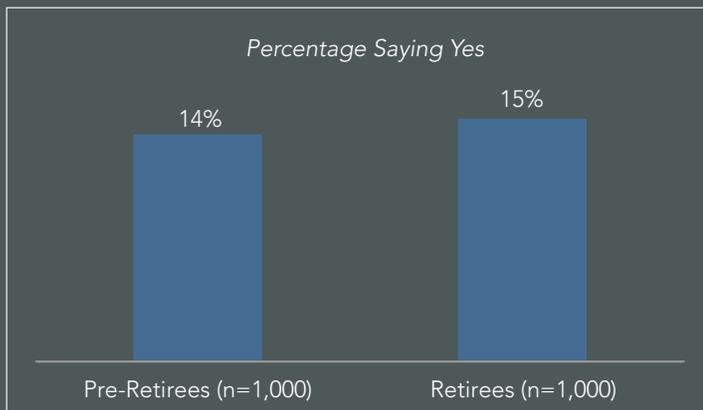
## Survey Findings

One in 7 pre-retirees (14 percent) and retirees (15 percent) report they have used household assets to help pay for caregiving for a relative or friend. More than one-quarter indicate they are at least somewhat likely to use household assets to pay for these caregiving expenses in the future (33 percent of pre-retirees and 26 percent of retirees).

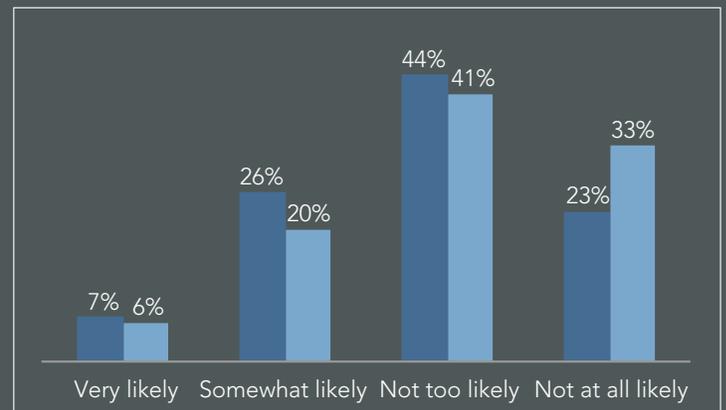
## Discussion

This is a new question. People contribute assets and time, and forgo wages in connection with caregiving. This is a huge issue for the future as more and more people will need care. ▶▶

Have you used any of your household assets to help pay for caregiving for a relative or friend (other than your spouse/partner)?



In the future, how likely do you think you will be to use your household assets to help pay for caregiving for a relative or friend (other than your spouse/partner)?





Notes

# Importance of Integrating Shocks into the Conversation

**T**he survey and focus group results combined indicate that for many people planning is about using regular income to cover the expected, not preparing for the unexpected and particularly not for shocks. Shocks are a major reason for people not doing well in retirement.

A prior SOA research paper by Vickie Bajtelsmit and Anna Rappaport, “Improving Retirement Outcomes: Timing, Phasing and Benefit Claiming Choices,” examines a variety of scenarios for retirement and combines them with different expense scenarios. The study builds on a prior study that also examines different scenarios with regard to risk management. The two studies use stochastic modeling and together show that:

- Retirement timing, phased retirement, and Social Security claiming strategies tend to move the median values of assets needed for retirement but they do not materially change the distributions.
- Factors driving the median values include retirement age, pension amounts, asset levels, Social Security claiming, and levels of expense reduction.
- Averages are not a good basis for planning. There is a huge difference between the forecasted wealth needed at the 50th and 90th percentile and a large additional difference between the 90th and 95th. These differences are largely shock driven, and the specific amounts of the differences are highly sensitive to model assumptions and model construction.
- Factors driving the “tails” of the distribution include the cost of long-term care, major health shocks and investment returns. Risk management strategies such as buying annuities and long-term care insurance can have a big influence for those who live long or who need the benefit. Such insurance is not affordable for many average families, such as the base case described in the study. These strategies do not improve the median situation since those who do not need the benefit of the insurance have paid for it. They can make a big difference for those who experience the shock.

When the “Improving Retirement Outcomes” study, the survey and the focus groups are considered together, it is very clear that shocks are very important. There is a critical need to focus on how they can be better reflected in planning and to think about whether the financial products available to protect against them can be improved. ▶▶

# Where Debt Fits In

**D**ebt is an important part of the financial picture for Americans at all ages. Events of the last few years have served to increase the importance of debt relative to longer-term retirement security.

**Housing Prices and Mortgages:** As indicated earlier, the survey shows that many people get to retirement with housing debt. There was a major run-up in housing prices in the early 2000s after the stock market bubble linked to tech stocks burst, leaving the stock market much more fairly valued. Many people, both individuals and the financial community, acted as if they believed that housing prices could only rise. Contributing to the housing bubble were extremely easy-to-get mortgages, often lending close to the full perceived market value of the house. Financial market liberalization and innovation led to mortgages that were extremely risky, particularly for economically vulnerable families (Emmons, 2013). Mortgages were granted for unaffordable amounts, often with the idea that the expected increase in housing values would make them a good idea. After housing prices crashed around 2007, many people found themselves with underwater mortgages, i.e., the mortgage balance that they owed was greater than the market value of the house. The problem of underwater mortgages persisted and still exists in 2013.

**Growth of Student Loans:** Student loans are an increasing burden on college- and graduate-school-educated individuals as they enter the workplace. According to a Pew analysis of Survey of Consumer Finances data, 40 percent of households headed by someone younger than 35 owe such debt, and 19 percent of all U.S. households had such debt, up from 9 percent in 1989. College costs have increased a great deal, contributing to increased borrowing. The situation was aggravated because recent graduates often found it difficult to find suitable jobs. The combination of student loans and a challenging job market will likely have a significant impact on the future careers and financial path of millennials. One of the likely longer-term impacts will probably be a delay in starting to save for retirement.

**Reference:** Emmons, William R., and Bryan J. Noeth, "Why Did So Many Economically Vulnerable Families Enter the Crisis with Risky Balance Sheets?" Federal Reserve Bank of St. Louis, Sept. 5, 2013. ▶▶

# More Insights into Financial Management and Experience

Using the American Life Panel (ALP), the Federal Reserve Board analyzed the financial experiences of older adults, defined as those age 40 and older. “Insights into the Financial Experiences of Older Adults” was published in July 2013. Some findings that supplement the Post-Retirement Risk Survey include the following:

Thirty-six percent reported a major financial stress in the last three years. Fifty-one percent of the stresses were job related, and 30 percent were health related. Seven percent filed for bankruptcy, 6 percent received a foreclosure notice, and 13 percent had unpaid taxes.

Of the group 70 and older, 19 percent reported a major financial stress in the last three years. Twenty-five percent of the stresses were job related, and 23 percent were health related. Four percent filed for bankruptcy, 7 percent received a foreclosure notice, and 9 percent had unpaid taxes. Eleven percent got separated, divorced or lost a partner, compared to 8 percent for the entire group.

Of the group age 70 and older, 78 percent have a written will and 46 percent have a written power of attorney authorizing someone to act on their behalf if they are unable to. At ages 60 to 69, 68 percent have wills and 28 percent have a written power of attorney.

In this study, 72 percent of those ages 40 to 49 reported home-secured debt, as did 59 percent of those people age 50 to 59; 48 percent of those age 60 to 69; and 29 percent of those over age 70. Of those age 70 and older, 68 percent pay their credit card balances in full. That compares to 41 percent at ages 40 to 49.

The report can be found at <http://www.federalreserve.gov/econresdata/older-adults-survey/July-2013-Preface.htm>. ▶▶

# Planning for a Better Retirement

Overarching the approach to retirement risk is the almost self-evident principle that the earlier in their lives individuals make plans and the more thoroughly they think them out in preparation for retirement, the more effective the outcomes are likely to be and the greater will be the range of options available to those reaching their senior years. No solution will be more effective than early anticipation of and good planning for retirement; it will often make the difference between living one's later years well and merely coping with a survival strategy. While this may come across as a trite observation, it underlies most of the specific recommendations of seasoned financial professionals.

For those in their formative years, plans should include adequate insurance against catastrophic health risks, and the low probability but real possibility of premature death. As individuals begin to contemplate the reality that they may not work forever, retirement planning means building up a fund to supplement Social Security and whatever employer-sponsored pension plan benefits they may have accrued so as to replace a certain percentage of their pre-retirement income. Financial advisers are quite far apart on what that percentage should be, but for most middle-income families, recommended replacement ratios of 75 to 85 percent of pre-retirement gross earnings for spending needs are typical. The important exercise is not so much trying to come up with an exact ratio or fund amount; rather, it is the process and discipline of active participation in a systematic savings program. For many employees, this can be accomplished through employer-sponsored defined-contribution (DC) plans such as tax-sheltered annuities (TSAs) or 401(k) plans that enable their contributions, plus in many cases a certain level of employer-matched amounts, to be accumulated on a tax-deferred basis until withdrawn.

Social Security's introduction in the 1930s and the rapid expansion of employee benefit plans in the years following World War II gave rise to the notion of a "normal retirement age" of 65. Unless forced to do so earlier because of accident, sickness or disability, people in the work force tended to retire at 65, especially if eligible for an employer-sponsored pension benefit. So embedded in the American psyche has that age become that as recently as this 2013 survey it was the median at which pre-retiree respondents said they planned to retire, notwithstanding that the median at which those already retired had done so was 58. That seven-year earnings shortfall between plan and execution comes at a critical stage when many workers are making maximum contributions to their retirement fund. But again, as reported in this survey and in the focus groups, with more employees feeling that they were "pushed" out of their jobs, many are reduced to taking involuntary early retirement and not being able to follow one of the basic rules of many financial service professionals, namely to work as long as possible.

Between involuntary early retirement and eligibility for any retirement benefits they may have accrued, there is a strong temptation for many people to access Social Security at the earliest possible age, typically 62, thereby violating another cardinal precept of financial advisers—to maximize Social Security income over one’s lifetime. For a couple age 62, the added value of lifetime benefits if the higher earner defers Social Security until age 70 can be significant. Unfortunately, few people, especially if they retired several years before they planned, have the income stream to tide them over to take advantage of such deferral. Among the 2013 survey respondents, 45 percent of pre-retirees said they planned to postpone taking Social Security; only 11 percent of retirees said they had done so.

For those who have made the transition to retirement reasonably intact with at least some form of regular income, the next most immediate priority is to make sure they are protected against risks to their health. Nothing will drain whatever retirement funds they may have accumulated and have the potential to seriously impair even a well-thought-out financial arrangement faster than a major sickness, particularly one involving an extended hospital stay. One obvious solution to reducing the likelihood and severity of sickness in older age frequently glossed over in much of the discussion is simply to stay healthy. Individually, the “stay healthy” solution approach to coping with a significant retirement risk is, unfortunately, one that far too few financial counselors address.

But even the best of intentions to stay healthy as one grows older must be tempered by the reality that a major medical condition, a disability, or even a less serious physical or cognitive decline is often beyond one’s control. The SOA’s 2012 study on the impact of running out of money in retirement cites research showing approximately 70 percent of those over 70 will experience at least one unforeseen “shock” in a nine-year period, most typically one associated with physical or cognitive decline. Medicare and supplemental insurance may soften its financial impact, but if the condition requires an extended stay in a nursing facility, private long-term care insurance, a relatively new coverage on the market and an expensive one at that, is the most obvious cushion for such a risk.

Another of the solutions to coping with the realities of retirement, offered almost mantra-like in the lists proposed by financial counselors, is to “live within your means.” Based on the high response level for pre-retirees and retirees alike on the spending question in the survey and the high correlation of retiree action to pre-retiree intention, this tactic of adjusting expenses to reflect income as an approach to controlling risk appears to have wide acceptance. Researchers of retiree spending habits often observe that, once retired, people tend to become more reconciled to the limits of their resources. What is also somewhat surprising is that this response is not as income-sensitive as might intuitively be imagined. Among retirees with annual incomes below \$50,000, it was the response of 79 percent that they had already cut back on spending or intended to do so; among those with incomes above \$100,000, it was the response of 73 percent; statistically the difference between the two percentages was not significant.

Analyzing spending habits of retirees and the coping mechanisms they employ to manage risk is a relatively impassive exercise when the subjects have “livable” incomes, the means within which to live. However, except for the hardest hearted, it is difficult to study without some emotion the limitations on those at the lowest end of the income spectrum. In its 2013 “Middle Market Retirement Approaches” study, the SOA defines a married senior household with income in the \$81,000 to \$110,000 range and median net worth of \$1.1 million as “Middle Affluent,” and admits that even there, its asset management models are of “modest utility.” For senior households in the “Middle Mass” market, that is, with annual incomes ranging from \$28,000 to \$81,000 and a median net worth of \$285,000, the SOA declares its asset management models of “low utility.”

Closing on this note, the reality is that of the nation’s 40 million seniors, perhaps only the top two quartiles, that is, those above the median senior household income of around \$48,000, are reasonably well set for anything approaching a “dream” retirement. For the 10 million in the quartile between \$28,000 and \$48,000, closely monitoring their expenses is probably the most significant personal risk management solution. But for the lowest income quartile, and especially the 5 million or so seniors in the lower half of that bottom quartile, subsisting at or below the federal definition of poverty, it is unlikely through their lifetimes, unless they were ever covered under employer-provided group life and health insurance, that they were able to avail themselves of planning services. And now, as seniors, they can thank those at the Social Security and Medicare Administration for keeping those programs, at least for the time being, actuarially sound. ▶▶

# Personal Risk Management— One Perspective

BY MIKE COWELL

People make critical choices during their formative and working lives. These choices significantly shape the quality of life they find in their later years. This outlook is simply one observer's conviction from the retrospective of a decade-and-a-half into retirement following 40 years working toward it. Much of that career was spent quantifying relationships of wellness and longevity to behavior and lifestyle. The SOA 2013 Survey of Retirement Risks (the survey) reinforces observations on basics of personal risk management drawn from that experience.

Philosophers offer various explanations for what makes the "good life;" twenty-four centuries ago, Aristotle, in "Politics," held that the objective of the city state was to enable its citizens to live together, *κοινωνία*, and to live well, *εὖ ζῆναι*. Nowadays, comparing relative progress across societies, actuaries and demographers use objective measures: enabling citizens to live long, and how much of the length of days is spent in a vigorous, healthy condition. Economists typically employ more materialistic criteria, such as income and wealth. Some may find this bordering on the boring, if not banal, particularly where actuarial and economic attributes coalesce into statistical correlations among education, income, lifestyle, wellness and longevity.

The U.S. Surgeon General keeps precise tabs on regional variations among critical health-defining measures such as smoking and obesity. Not coincidentally, where smoking and obesity are most prevalent, average levels of education are lowest, and vice versa. And while it may appear to be a stereotype, it is statistically demonstrable that the better educated earn more, smoke less—if at all—are thinner, and lead healthier and longer lives.

The SOA survey tracks income and asset levels, but not smoking habits or obesity. Its only indicator of wellness comes from a generally worded question to which respondents describe their health as "excellent," "very good," "good," "fair" or "poor." For pre-retirees and retirees alike, responses cluster around "very good," about 45 percent, with 20 to 25 percent saying "excellent" or "good." Only 5 percent of pre-retirees and 9 percent of retirees responded "fair" and only 2 percent of retirees, "poor." Conforming to type, those with annual household incomes above \$100,000 were 40 percent more likely to describe their health as "excellent" or "very good" than those below \$50,000.

Survey respondents also tend to be somewhat more affluent than the overall population. Median household income of pre-retirees in 2012 was \$80,000; of retirees, just over \$65,000. Retired widows were the exception on the health scale, their responses skewing to the lower end, with only 6 percent saying “excellent,” against 33 percent “fair” and 15 percent “poor.” Their median 2012 income was \$39,000. Nevertheless, the same patterns of income, health and wealth one finds generally are also reflected in these responses. Disparities between those at the upper and lower ends of the income spectrum are borne out in such concerns as depleting all their savings or becoming unable to maintain a reasonable standard of living. Among retired respondents with annual household incomes below \$50,000, over half expressed such worries. This was statistically higher than the same concerns reported by only one-third of those with incomes above \$100,000.

A recent study by the Employee Benefit Research Institute corroborates these money worries. In 2009, more than 40 percent of all senior households had incomes less than their expenditures. At \$30,000 annual income, margins between those in a deficit position and those with positive cash flow were not that large. Analysis of expenditures by category showed housing and higher health costs as the two largest drivers of the deficits. Concerns expressed in the survey about ability to maintain a reasonable standard of living and to pay for health care are well founded.

Planning for retirement and managing its risks are not easy paths. Generally speaking, those who have taken steps to optimize their educational, economic and lifestyle circumstances along the way, made plans for their “declining” years and executed to them, may find the challenges easier to bear; though even then it will not always be the walk-in-the-park “dream retirement” they may have envisaged. ▶▶

# Frauds and Scams

BY CINDY LEVERING

In looking at the chart on page 17, which shows the snapshot of retirement risk concerns, one of the lowest-rated items among the survey respondents is being the victim of a fraud or scam (29 percent of pre-retirees and 32 percent of retirees report being very or somewhat concerned). In addition, the full survey report shows only 26 percent of retired widows being very or somewhat concerned. This seems surprising given the number and variety of things that seem to appear in the news almost daily and has been called “the crime of the 21st century.” In fact, a 2009 study by MetLife’s Mature Market Institute estimates seniors lose approximately \$2.6 billion per year due to fraud and theft just from family members and acquaintances.

While this is not a problem unique to older individuals, they are often more vulnerable to such schemes due to things such as a generally trusting nature combined with a decline in cognitive ability (see the recent movie “Nebraska”). It can happen to wealthy seniors as well as lower-income ones. When it is perpetrated by family members, it often goes unreported. Also, women are more likely to be victims than men (note the survey results by gender show equal concern among male and female retirees but greater concern among female than male pre-retirees (33 percent vs. 24 percent)).

The MetLife Mature Market Institute and the National Committee for the Prevention of Elder Abuse have compiled the following list of indications that an older person may be a victim of financial exploitation (<https://www.metlife.com/assets/cao/mmi/publications/essentials/mmi-preventing-elder-abuse-essentials.pdf>):

- Lack of care when the older adult has sufficient funds available
- Changes in banking or spending habits, including excessive use of the ATM or credit cards, especially for non-care-related items
- Abrupt changes in a will, power of attorney, or financial documents
- Unpaid bills and utilities
- Lack of knowledge of financial status
- New “best friends”
- Documents signed under duress (forcing an individual to sign a document against their will)
- Unexplained disappearance of valuables or money
- Unexplained transfer of money or assets to a family member or someone outside of the family

- Discovery of an older person's signature forged on checks, financial transaction documents, or documents or titles related to his or her possessions
- Unusual degree of fear of or submissiveness to a caregiver
- Isolation from family, friends, community, or other stable relationships
- Signs of intimidation/threat from another person
- Missed appointments or uncharacteristic nonpayment of bills
- Anxiety about personal finances.

The FBI lists the following eight common frauds and scams to be aware of (<http://www.fbi.gov/scams-safety/fraud/seniors>):

- Health care/Medicare/health insurance fraud
- Counterfeit prescription drugs
- Funeral and cemetery fraud
- Fraudulent "anti-aging" products
- Telemarketing fraud
- Internet fraud (including email and "phishing" scams)
- Investment schemes
- Reverse mortgage scams.

General tips for avoiding such scams include being vigilant about protecting all personal information (especially over the phone), getting material in writing when possible, keeping accurate records, not being pressured into a decision, using strategies that do not require ongoing financial and investment decisions (such as longevity annuities), and promptly reporting to appropriate agencies if an incident does occur. ▶▶

# Personal Risk Management— Planning Horizons

BY CHUCK YANIKOSKI

In the context of retirement, risk management begins many years ahead of time:

Forty to 10 years before expected retirement:

- When seeking employment, consider the existence and nature of employer-sponsored plans.
- Also begin saving outside of any employer plans. Since retirement is only one of several needs, include savings methods allowing penalty-free withdrawals.
- Consider aggressive investment of retirement savings at this stage, though take more care with funds intended to purchase a house, pay for tuition, and for other short- to medium-term needs.
- Health is a lifelong risk area, so maintain health insurance at all stages of life.
- Make sure you have disability insurance, especially long-term disability, either through an employer or individually.
- Marriage, and the birth of children, mean that the breadwinner should have life insurance, and that health insurance and additional savings are provided for the benefit of the other members of the family.
- No adult is too young to be exempt from having a will, living wills, health care proxy, and other such provisions.

One to 10 years before expected retirement:

- Develop a hard-headed plan for expected future needs and possible future contingencies, and review it every year or two with increasing detail as retirement approaches.
- Take steps to improve overall financial health and reduce exposure to adversity—for example, bringing expenses gradually into line with what will be sustainable in retirement, paying down mortgages and other debts, and increasing contributions to savings and investments.
- Maintain health and disability coverage. Passing through middle age means increasing exposure to health and accident risks.
- Create a financial glide path into retirement that prevents overexposure to market risk and that will prevent the need to make withdrawals against funds that are experiencing a cyclical decline in value.
- Evaluate whether life insurance is still needed, and make decisions about its continued use or disposition.

Zero to one year before expected retirement:

- Understand and optimize income sources: when and under what option to start collecting from a defined-benefit plan, when to claim Social Security, what to do with defined-contribution plan accounts, whether to convert any funds into annuities for guaranteed lifetime income.
- Understand and carefully manage expenses in the context of a changing lifestyle. Develop, follow and monitor a budget. Treat future inflation as a fact of life rather than as a risk (but allow for variability in the inflation rates). Manage expectations of family members for loans or other support.
- Look for health insurance maybe before Medicare kicks in, and for Medigap insurance after.
- Consider long-term care risks and strategies, including long-term care insurance.

During retirement:

- Carefully monitor all aspects of ongoing financial management, especially expense control and careful management of savings and investments, in view of actual financial experience and in view of changing health and other circumstances.
- When one spouse dies, or some other major event occurs, some risks decrease, and some increase. A complete re-evaluation of all financial and non-financial plans needs to be made.
- As health wanes and death gets closer, make sure all loose ends are tied up. ▶▶

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The views and opinions expressed in this report are those of the authors and do not necessarily reflect those of the project oversight group nor the SOA as a whole.

## TO OBTAIN A COPY OF THE COMPLETE SURVEY REPORT

The 2013 Risks and Process of Retirement Survey report may be obtained from the website of the Society of Actuaries at [www.soa.org](http://www.soa.org).