MANAGING POST-RETIREMENT RISKS

A Guide to Retirement Planning

Actuaries
Risk is Opportunity.®

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This risk chart was prepared by a task force of retirement planning experts. The views and opinions expressed are those of individual task force members and do not represent an official statement or position on behalf of the Society of Actuaries or any organization with which they are affiliated. This chart is not intended to provide advice for specific individual situations and should not be construed to do so under any circumstances. It has been created as an educational tool to provide general guidance. Individuals in need of advice for specific situations should seek the services of a qualified professional.

CONTENTS

2011 RISK CHART

The past decade has seen not only economic uncertainty and volatility, but also an increased emphasis on individuals taking responsibility for securing their financial well-being in retirement. As a result, today's retirees may be exposed to a variety of risks that can affect them both as individuals and as members of society.

In view of this, the Society of Actuaries (SOA) has been working steadily to raise awareness of post-retirement challenges and to explore ways to address them. Part of this ongoing effort has been to develop the Retirement Risk Chart provided in this publication.

Written in everyday language, the chart details the many risks that individuals may face in retirement. Examples include risks associated with longevity, investments, health, loss of loved ones and more. The chart also mentions strategies for managing risk in retirement, so that readers can start to think about possible planning approaches to the risks they face.

The Retirement Risk Chart is a dynamic document, in the sense that the SOA updates it in response to new developments that impact retirement planning. The first edition came out in 2003; the second in 2008; and now the SOA has published this substantially expanded 2011 edition. The new version incorporates risks that have emerged as a result of new approaches, products, legislation and regulation that impinge upon retirement or set the stage for new risks.

The SOA encourages use of this chart as an educational tool for exploring retirement needs, plans and options. It may be helpful to look over the chart and combine knowledge gleaned here with other planning information and guidance. This can lead to better-informed decision making, more effective retirement planning and a more rewarding retirement. It should not be considered to be financial, legal or tax advice.

RISK LONGEVITY: OUTLIVING RETIREMENT RESOURCES

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Managing one's own retirement funds over a lifetime has many pitfalls, even with expert help. Nobody knows how long the money must last. Life expectancy at retirement is an average, with some retirees living longer and a few living past 100. Counting on living only to a certain age is risky, and planning to live to the average life expectancy for someone their age will be inadequate for about half of retirees. In theory, retirees want to make sure their money will last a lifetime without cutting back on expenditures or reducing their standard of living. In practice, unexpected events may make this very difficult. A licensed insurer is the only entity outside the government that can contractually guarantee to pay lifetime income. However, purchasing an annuity involves trade-offs; the household must give up the account balance to purchase the income stream. Financial products from firms that aren't in the insurance business could run out of money to pay income to a long-lived individual. Besides longevity, the other risks listed below can cause retirees to have reduced resources as they age. Someone who lives a long time has greater exposure to these other risks.	Long lifetimes are difficult to predict for individuals. It's easier to predict the percentage of a population with a long life than to do so for an individual. In the total population, women live longer than men and wives outlive husbands in most cases. Longevity has increased over time. Any medical breakthroughs could bring additional improvement.	Social Security, traditional pensions and immediate payout annuities all promise to pay an individual a specified amount of income for life. In addition, they may also pay income to the surviving spouse or other named survivor. Some newer products can help protect retirees from outliving their assets: • Deferred variable annuities and indexed annuities can include guaranteed lifetime withdrawal benefits that guarantee the availability of annual withdrawals up to a specified amount, even after these withdrawals have exhausted the account value. • Deferred variable annuities can include guaranteed minimum income benefits that provide a floor for guaranteed lifetime income in the event that investment returns have been poor and the annuity would ordinarily provide a lower income. • "Longevity insurance" is an annuity that guarantees a specified income amount but does not start paying benefits until an advanced age, such as 85. This niche product may fit into a carefully designed financial plan. • "Managed payout" plans, offered in several forms by financial services firms, enable the retiree to draw down assets gradually. Lifetime income from such plans is not guaranteed, but is set at a level that provides a high probability that income can be received for many years, e.g., to age 90. In some cases, a "contingent deferred annuity" can be added to guarantee that the income payments will continue for a lifetime. • A reverse mortgage can convert home equity into ongoing monthly income as long as the homeowner lives in the home. Administrative charges for these mortgages can be high.	"Payout annuities," also called immediate or income annuities, can be useful for retirees because they maximize the amount of guaranteed lifetime income available from a sum of money. Some mutual fund companies are offering "annuity alternative" arrangements to ensure liquidity in retirement with cash/mutual fund structures that can be blended with annuities. Experts disagree about whether and when "annuitization" (converting an annuity's account value into monthly income) is a good strategy. Disadvantages include losing control of assets, costs and inability to leave money to heirs. Annuities without inflation protection are only partial protection against living "too long." An annuity that seems unattractive to buy at retirement age may make sense later. Multiple annuity purchases can be made over time to average interest rates inherent in their purchase prices. People generally should not annuitize all their assets, but they may want to consider annuities in their overall retirement plan. Financial projections can be very useful in retirement planning, but actual experience will differ. All retirees should review their expected income needs and sources at least every few years and adjust spending if necessary. Reverse mortgages can help to mitigate risk in some cases, but they may also increase it in others. Care is needed in the use of these products. The mortgage proceeds can be paid in a lump sum, as a monthly income, or as a line of credit. Annuities and reverse mortgages differ in an important way. When interest rates are higher, you get higher monthly payments when you buy an annuity. In contrast, when interest rates are higher, you get lower monthly payments if you take out a reverse mortgage. Retired individuals with outstanding mortgages can effectively improve their monthly cash flow by replacing the conventional mortgage with a reverse mortgage, using the lump sum proceeds of the reverse mortgage to pay off the conventional mortgage.

RISK INFLATION

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Inflation should be an ongoing concern for anyone living on a fixed income. In the recent era of relatively low inflation, workers may not know about or remember the double-digit inflation of 1947, 1974 or 1979–81.Even low rates of inflation can seriously erode the well-being of retirees who live many years. Social Security and other government retirement programs pay benefits that keep pace with inflation, but many private pension plans do not. In many years, medical costs have risen faster than inflation. Also, retirees' shares of medical costs including Medicare Part B premiums often increase more rapidly than average medical costs. As a result, inflation can become a bigger issue for some people than would be expected based on average inflation rates	Average past inflation can be calculated from historical data, although actual experience over a typical period of retirement may vary widely. Past inflation data can provide some help in estimating retirement needs, but there is no guarantee that future inflation will match historical experience.	Many investors try to own some assets whose value may grow in times of inflation. However, this sometimes results in trading inflation risk for investment risk. • Investment returns from common stocks have increased more rapidly than consumer prices in the long run. But in the short term, stocks don't offer reliable protection against inflation. The historically higher returns from stocks are not guaranteed and may vary greatly during retirement years. • Inflation-indexed Treasury bonds grow in value and provide more income as the Consumer Price Index goes up. Many experts say that retirees' investments should include some of these securities. • Inflation-indexed annuities, not widely used in the United States, adjust payments for inflation up to a specified annual limit. Annuities with a predefined annual increase also are available. These kinds of annuities cost more than fixed-payment annuities with the same initial level of income. • Investments in natural resources and other commodities often rise in value during periods of long-term inflation, but the values may fluctuate widely in the short run.	Inflation can be a major issue, especially as retirement periods lengthen. Inflation is not highly predictable. Retirees can set aside assets that will permit a gradual increase in consumption. Providing for expected inflation one way or another, although costly, is needed in any realistic plan for managing resources in retirement. Delaying receipt of Social Security will build up valuable inflation-indexed benefits for retirees and spouses. When housing values were increasing, homeowners seemed to have a hedge against inflation, but this has not been true in recent years. Current and future retirees who have expected to use their home equity as a source of retirement income may be sorely disappointed, especially if housing values continue to decline. Strategies that rely on increases in the value of housing and selling quickly are very risky, since the value may not rise and it may take a long time to sell the house.

RISK INTEREST RATES

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Lower interest rates tend to reduce retirement income in several ways: • Workers must save more to accumulate an adequate retirement fund. • Retirees earn less spendable income on investments such as CDs and bonds; any income reinvested earns lower rates. • Payout annuities yield less income when long-term interest rates are low at the time of purchase.	Long-term and short-term interest rates can vary within a wide range. Underlying forces that drive interest rates include expected inflation, government actions and business conditions.	Income annuities provide retirees with a guaranteed fixed income, despite changes in the interest rate environment, but most do not adjust the income for inflation. Prevailing interest rates will impact the amount of annuity payout the retiree can purchase from a given lump sum. Investing in long-term bonds, mortgages or dividend-paying stocks also offers protection against lower interest rates, although the value of these investments will fluctuate. The risk is that rising interest rates will reduce the value of such assets available to meet unexpected needs.	Long-term interest rates often move up or down at about the same rate as inflation. Higher real interest returns, above rates of inflation, usually make retirement more affordable. This occurs when retirees' assets include sizeable amounts of interest-paying bonds, CDs, etc. However, some retirees have adjustable-rate mortgages or substantial consumer debt, so higher interest rates are an added burden. For such retirees, the higher interest rates that accompany increased inflation may reduce their spendable income just when it's most needed. Low interest rates in some recent years make it clear that retirees relying on income from interest-bearing investments are subject to interest rate risk.

RISK STOCK MARKET

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Stock market losses can seriously reduce retirement savings. But common stocks have substantially outperformed other investments over time, and thus are often recommended for retirees' long-term investments as part of a long-term investment mix.	Individual stocks rise and fall based on the outlook for the stock market and the specific company. Individual stocks are more volatile than a diversified portfolio. Stock index funds are diversified, but they still are exposed to the ups and downs of the stock market.	Stock market investors should diversify widely among investment classes and individual securities, and be prepared to absorb possible losses. Because it may take many years to recover losses, older employees and retirees should be especially careful to limit their stock market exposure. A variety of pooled investment "funds" exist, ranging from mutual funds and exchange-traded funds to managed accounts to hedge funds. Hedge funds, which are private investment funds that participate in a range of assets and a variety of investment strategies, may offer some protection, but they can be complex and have high expense charges. Stock funds offer opportunities to invest in both U.S. companies and international stocks.	Some financial products let an individual invest in stocks and guarantee against loss of principal. However, expenses on these products may be high, and the financial firm may limit losses by shifting most funds to bonds, thus reducing the stock exposure. Younger workers can afford to take more risks because they have time to make up short-term losses and can postpone retirement. Older individuals might want to allocate a smaller proportion of assets to the stock market. Target-date (or "life-cycle") funds gradually shift some of their assets out of stocks as the investor gets older. In target-date funds designed by different fund managers, the allocation to stocks at a given age varies. Proposed regulations would increase disclosure to consumers about target-date funds to bolster understanding of what these funds do and don't do. When significant personal assets are in company stock, the risk of job loss is compounded by possible loss of savings if the company does poorly or goes out of business. Even if a company appears strong, it is safer to diversify those assets among other investments.

RISK BUSINESS CONTINUITY

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Loss of retirement funds can occur if: • An employer pension plan sponsor goes out of business. • An insurer that is providing annuities becomes insolvent. • Assets held in a defined contribution plan account lose value. Risk of such loss depends on the type and mix of assets, and includes possible failure of the employer's business if much of the account is invested in employer stock.	The risk of insolvency for an employer or insurer is closely related to its credit rating in the bond market and, in the case of an insurance company, its claim-paying ability rating. Those with top ratings are safest, but ratings sometimes fall rapidly when business conditions or information change.	Benefits in most defined benefit private pension plans are insured by the federal Pension Benefit Guaranty Corporation (PBGC) up to certain limits. Annuitants are covered by state insurance company guaranty funds up to specified limits in the event of insurer insolvency. Defined contribution plan participants need to diversify investments. Where the plan automatically includes heavy concentration in employer stock, participants should look to other assets for diversification. If the employer also provides a defined benefit plan (a traditional pension), this automatically gives some diversification.	A pension plan can be terminated even if the employer remains in business. For defined benefit plans that are not covered by PBGC insurance (e.g., state and local government employee plans, church plans), benefits can be lost on termination.

RISK EMPLOYMENT

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Many retirees plan to supplement their income by working at a bridge job part-time or full-time. Today's jobs often make few physical demands and may even be done at home. Some organizations prefer to hire older workers because of their stability and life experience. But success in the job market may also call for technical skills that retirees cannot easily gain or maintain. Training and retraining have become increasingly important for those who want to work at older ages.	Employment prospects among retirees vary greatly because of demands for different skills, and can change with health, family or economic conditions. About half of all retirees retire earlier than planned, often because of job loss or poor health.	Retirement plans rarely allow for phased retirement, so a bridge job usually means working for a new employer. Re-hiring of retirees also is growing more common. These kinds of jobs often have lower pay or benefits. Postponing retirement may be the most powerful way for workers to improve their retirement security. This allows retirement savings to keep growing while the workers accumulate more benefits from Social Security and retirement programs. Medicare-eligible retirees can take a job knowing that they will have health care coverage, even if the employer does not offer it.	Retirement planning should not rely heavily on income from a bridge job. Many retirees welcome the chance to change careers and move into an area with less pay but more job satisfaction, or fewer demands on their time and energy. However, it may be difficult to find jobs in tight employment markets. Terminating employment before age 65 may make it difficult to find a source of affordable health insurance before Medicare is available. Note that COBRA coverage usually ends after 18 months (36 months if disabled). After 2014, health care coverage should be available through state exchanges, but its costs are not yet known.

RISK PUBLIC POLICY

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Policy risks include these possible developments: • Increase in taxes (income, property, sales, etc.). • New kinds of taxes such as a consumption tax or value-added tax. • Reduction in entitlement benefits from Social Security, Medicare and Medicaid. • Increase in retiree contributions for Medicare. Higher payments by high-income retirees are already scheduled. • Tighter income standards for Medicaid and other means-tested programs. • Evolving rules and cost impacts under 2010 health care reform law, including state health care exchanges, family health care coverage, retiree health care benefits and long-term care benefits.	Changes that may include benefit cuts or higher taxes will be needed to pay benefits to aged baby boomers. Such benefits include Social Security, Medicare and veterans' benefits.	Municipal bonds, Roth IRAs and Roth 401(k)s have a tax-free status that offers protection against higher income tax rates. Converting a traditional IRA to a Roth IRA will lock in current income tax rates. But new kinds of taxes could reduce the purchasing power of such "tax-free" income. Planning for ongoing income should also address retirees' need or desire for liquidity to meet unexpected needs.	Historically, Congress has been very reluctant to reduce benefits promised to current retirees. Older workers also may escape benefit reductions; but young workers' future government benefits are less safe from reduction. Under current law, more and more retirees will pay income tax on their Social Security benefits because the dollar exclusion from taxation does not go up with inflation. The health care reform law enacted in 2010 is scheduled to impact costs, benefits, long-term care and other aspects of retirees' financial lives, mainly after 2013. Much of this legislation is being challenged in the courts and Congress, increasing the level of uncertainty in current planning. Reductions in Medicaid programs and in support for long-term care can reduce the supply of quality providers and facilities in total, affecting both individuals on Medicaid and the broader population.

RISK UNEXPECTED HEALTH CARE NEEDS AND COSTS

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Unexpected health care costs are a major concern. Employers continue to cut back on post-retirement health care benefits. Low-income retirees may spend a large percentage of their resources on health care, although Medicaid does provide assistance for the poor. Medical technology improvements that extend life may increase health care costs. Uncertainty over implementation of reform measures is hampering current retirement planning.	Health care costs are: • Relatively easy to predict for a large group over a limited time. • Hard to predict for individuals. • Very hard to predict far into the future. However, the cost and benefit structure impacts of health care reform should be more predictable by 2014, when the new health reforms are fully implemented.	Medicare is the primary source of coverage for post-65 retirees. Supplemental coverage is available from employer plans and individual Medigap policies or HMOs. Other federal or state-local programs may assist low-income retirees. Instead of retiring from a job with health benefits, employees may choose to keep working, at least part-time, in a job that will allow them to remain covered. After 2014, individual coverage should be available through state insurance exchanges, assuming health reform implementation goes smoothly. The cost of such coverage is not yet known. Wide varieties of "discount benefit plans" are available for typical non-covered services such as dental or vision care. Regulators have had to clamp down on marketing practices to keep consumers from mistaking such discount arrangements for insurance coverage. Medical travel or even migration to other countries has gained popularity as a way for consumers to reduce their cost for care. Costly surgery covered in the United States by normal insurance sometimes is available elsewhere at lower out-of-pocket cost, although there may be added risk.	Future resource requirements are hard to predict because a high level of uncertainty exists about the future design of Medicare and other changes in health policy and operation of health exchanges. In a typical group, a small percentage of individuals usually account for a large percentage of the group's overall health care costs. It's not too late for retirees to reduce their risk of major health problems by lifestyle changes involving diet, exercise, smoking, etc.

RISK LACK OF AVAILABLE FACILITIES OR CAREGIVERS

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Quality facilities or caregivers sometimes are not available for acute or long-term care, even for private-paying individuals. Couples may be unable to live together when one of them needs a higher level of care, thereby increasing cost and emotional stress. When availability is low, families may select a facility or caregiver that turns out to be subpar, with negative consequences—financial and otherwise—for the care of the recipient.	Individuals may want to review the private and public support programs that are available in areas where they intend to live in retirement.	In some cases, individuals may be able to choose a general area of residence to improve access to care.	Lack of appropriate facilities or caregivers may force people into a higher level of care, or cause them to be without needed care. The current shortage of health care and long-term care workers may get worse as the population in need of care increases. The number of options available is much larger for individuals with greater financial resources.

RISK LOSS OF ABILITY TO LIVE INDEPENDENTLY

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Changes can be sudden, tied to an illness or accident, or gradual, perhaps linked to a chronic disease or cognitive impairment. Multiple problems are common when physical or mental capabilities decline. If family is not nearby or available, the retiree may need to rely upon friends, neighbors and strangers for assistance.	The percentage needing help rises substantially with age, but changes in individual cases often are hard to predict. Studies project that 70 percent of individuals over age 65 will need long-term care assistance	Insurance coverage for long-term care covers disabilities so severe that assistance is needed with daily activities such as bathing, dressing and eating. Some older policies require a nursing home only or require a hospital stay prior to claim eligibility; many modern policies do not. The cost of long-term care insurance is much lower if purchased at younger ages, well before anticipated need. Functional status may be hard to measure, and older insurance products may use different definitions of limitations. It's better to look for less-severe definitions when purchasing insurance. However, current policies are generally consistent. Medicaid coverage varies by state. In general, state programs cover a large share of total nursing home costs and may cover assisted living and home health care benefits. Benefits are available only to people with very low income or no assets. To qualify for Medicaid, people must spend down their assets to specified levels. Medicare provides only limited, short-term care benefits in certain circumstances; it does not provide care for the long term. The CLASS Act of 2010 provides for limited long-term care benefits, but this is a voluntary plan and no one can start receiving benefits until after having paid in for five years. Eligibility for the program is anticipated to be based on an actively-at-work provision. Administration will be through an employer automatic enrollment. Participants may opt out. Premiums are not yet known, but are likely to be higher than many can afford due to the possibility that claims volume will be high.	Defining functional status can be a problem. For example, "difficulty in using telephone" might mean: • Can't use phone at all. • Can answer a call but not place one. • Can't look up number to call but can use speed dial. • Can use phone on limited basis but cannot use answering machine. None of the limitations on using the phone would trigger benefit eligibility under long-term care insurance, but they may trigger the need for help. Spousal protection rules (which vary by state) need to be considered when deciding whether Medicaid would help. Medicaid programs are cutting benefits in response to state budget cuts. Care options are linked to housing choices, and these are evolving. The availability of CLASS Act benefits may encourage more employers to offer group long-term care coverage. However, there is considerable uncertainty about the implementation of the CLASS Act and whether it may be changed. Combination and linked benefit products (which combine long-term care benefits with annuities or life insurance) are increasing and offer promise for the future.

RISK CHANGE IN HOUSING NEEDS

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Some housing accommodates aging and changing needs well and other housing does not. Accessible housing offers more options to stay in place rather than move. Special housing for the elderly provides a range of services, including help with activities of daily living and sometimes with ongoing health care too. Housing that includes care can be quite costly. Some housing focuses on care for specific diseases or conditions. The most appropriate form of housing for an individual in a given situation may not be available in the chosen geographic area or may have a long wait for entrance.	Needs at time of retirement are predictable unless the individual is disabled. Future needs are hard to predict because they vary with the ability to function; for example, stairs may become a barrier. Snow removal and yard care can also become problems, although they can generally be contracted out.	Special housing is financed mainly from personal assets and current income. Retirement income planning should allow for increases tied to inflation plus significant increases later to cover different types of housing. Housing is the largest expense for many retirees, and some will need to downsize to reduce the expense. Complicating matters is that housing values are unpredictable, and it can take a long time to sell a house. Medicaid and/or long-term care insurance may cover part of housing costs if required for the care options.	Choices depend on personal preference and functional status plus financial and family resources. Housing can be a major asset in retirement. A home can be converted to cash by selling it or using a reverse annuity mortgage. When a retiree lives in a paid-for house rather than renting or making mortgage payments, monthly expenses may be considerably lower. Whether to pay off or maintain a mortgage is an important financial decision for many families. Whether to keep the house or sell it is another big decision. In some cases, the homeowner may pay off a traditional mortgage by taking out a reverse mortgage. Reverse mortgages are sometimes used to pay for home modifications that enable the retiree to remain in the home. "Continuing care retirement communities" include elements of advance funding of costs for long-term care and medical care. Arrangements vary greatly and there can be considerable risk involved, including the risk that the facility may go bankrupt. Retirees should evaluate the community's options, charges and financial stability very carefully.

RISK DEATH OF A SPOUSE

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
The death of a spouse is a major change in family situation that is often accompanied by a decline in economic status: • Some income may stop at the death of a spouse or former spouse. • The death of a disabled person's caregiver spouse may bring financial problems at a very difficult time. • The surviving spouse may not be able or willing to manage the family's finances. Inability to cope with a spouse's death or terminal illness contributes to high rates of depression and suicide among the elderly.	It is very difficult to predict which spouse will live longer in individual cases. On average, women are widowed more often than men.	Many financial vehicles are available and can be used in combination: • Life insurance. • Survivor income in Social Security, pension plans and annuities. • Long-term care insurance. • Savings. Wills and estate planning are important tools to provide for a surviving spouse. A well-structured retirement income plan can be an important source of stability for the surviving spouse.	Some experts say that a surviving spouse needs about 75 percent of the couple's income to maintain living standards. Widows' financial resources are very low in many cases. Poverty rates for elderly widows are about 15 percent, compared to 4 percent for married couples. Social Security provides continued benefits to survivors based on their employment histories and family status. Note that a single-earner family survivor generally gets two-thirds of the combined family benefit that was payable while both were alive; whereas in a dual-earner family with equal earnings, the survivor gets only about half of the combined benefit. In this case and many others, the reduction in Social Security benefits after death of the first spouse is much greater for the two-earner couple than for the single-earner couple. Married couples may want to choose their Social Security retirement dates carefully to increase potential surviving spouse benefits. This may mean that the lower earner applies for benefits at age 62, and the higher earner waits until age 70.

RISK OTHER CHANGE IN MARITAL STATUS

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Marriage and divorce can affect benefit entitlement under public and private pension plans. Some of these effects may not be well-understood. For example, a woman sometimes can maximize her Social Security benefits by first applying as a widow or divorced spouse and later applying at age 70 for benefits credited on her own record as a worker. Divorce can create major financial problems for either party.	A substantial percentage of marriages end in divorce. Many women are alone in retirement. Divorce or marriage after retirement age is not uncommon and should be recognized as a possibility.	This is a personal issue. There are no formal programs. At divorce, the law allows for split of private pension plan benefits covered by ERISA. For this purpose, divorcing spouses need a properly drafted qualified domestic relations order (QDRO). Older couples who marry, especially those with children, may want a prenuptial agreement that defines each party's rights to distribute or dispose of property as they wish, not as a court would decree.	In divorce proceedings, retirement benefits may get transferred from one spouse to the other, depending on decisions of the parties and the divorce court. Couples considering whether or not to marry will need better information about how their decision affects benefits from Social Security, Medicaid and retirement or survivor programs. • At marriage, an individual may gain rights to survivor's benefits under Social Security and retirement programs. • Marriage or remarriage may result in the loss of some benefits.

RISK UNFORESEEN NEEDS OF FAMILY MEMBERS

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Many retirees find themselves helping other family members, including parents, children and grandchildren. Retirement planning should recognize any obligation to assist such family members. A change in health, employment or marital status may upset such plans and call for greater personal or financial support from the retiree. Generally, family members are known at time of retirement, but new grandchildren may come after retirement. Sometimes people remarry after retirement.	Older children or grandchildren often need money for higher education, and a few need special help to deal with physical or mental handicaps. Their parents can usually foresee such cases by the time they retire and try to plan accordingly. Adult children may look for help in case of unemployment or financial setback.	Social Security and other government programs may pay benefits to family members other than the worker's spouse.	An increasing number of grandparents are the primary caregivers for their grandchildren today.

RISK BAD ADVICE, FRAUD OR THEFT

BACKGROUND	PREDICTABILITY	MANAGING THE RISK	COMMENTS
Retirees may lack financial skills and judgment, especially at advanced ages as mental capabilities decline. They may be preyed upon because of their substantial assets and fading cognitive skills. Friends and relatives may be unqualified to advise. Brokers may promote unsuitable products. Family members or caregivers who gain control can have selfish motives. Professional con artists promote investment schemes that are too good to be true. Societal changes are bringing greater use of paid caregivers instead of family members. Caregivers, advisors or scammers may have access to a retiree's assets, personal belongings, ID data, passwords and other personal information. Banks' automatic payment plans and overdraft protection may pave the way for fraud through third-party access to bank account information. Poor returns on traditional investments have made many retirees desperate for more current income.	Exposure may increase as retirees directly control more assets, financial products become more complex, more retirees use computers, and scammers become more adept. However, good advice and good products are increasingly available to people who seek them out	Retirees can take precautions to manage this risk. Some examples follow: • Brush up on the basics of investing and handling money. • Get advice from qualified and trustworthy sources, including federal and state agencies and employer-sponsored programs. • Try keeping decision making simple to ensure understanding. • Get several opinions on important issues. • Be very cautious in giving control of assets such as home equity to any professional or in dealing with strangers personally or online. • In later years, expect to rely more on trusted family members or professionals. Try to investigate and choose who this will be long before their help is needed. • Use paid caregivers who are bonded. • Limit investment purchases to those that can be easily bought and sold. Check out unfamiliar investments with state securities departments. Use only money managers who are well-known and regulated.	Even a well-educated person with a financially secure retirement may be exposed to substantial loss from these sources. Few people have the wide range of expertise needed to give good advice in every situation, so it's important to have access to different sources of advice. Using strategies that do not require ongoing financial and investment decisions—such as traditional pensions or payout annuities—reduces some of the risks noted here. However, care is needed in the purchase of all financial products including payout annuities. In some situations, there's no clear line between legitimate help and abusive control. This can be particularly important where there is help from family and friends.

RELATED PLANNING ISSUES

Some planning issues are not directly risk issues, but dealing with them is important when thinking about retirement risks. Here are some examples:

- *Failure to pay attention to planning:* Many individuals do not do systematic longer-term planning, and that creates a major hazard for their future.
- *Time horizon:* Many individuals and families do not plan for a long enough time frame. People need to plan for the rest of life, and often that is a very long time period to think about.
- *Debt:* Too many families have significant debt as they reach retirement age. Repaying debt is a heavy burden for them, and it can often divert attention and resources from managing post-retirement risk. Many experts, though not all, believe it is best to move into retirement without significant debt—and then to stay that way.
- *Housing:* This is a major issue, going well beyond risk. Consider:
    - Among Americans aged 55–64 in the mid- and mid-affluent economic groups, nonfinancial assets are about 70 percent of their assets on average, excluding the value of defined benefit plans and Social Security, according to SOA research.[1] Housing is the most important part of these assets.
    - For people who can afford their homes and have no intent to move or sell the home, changes in home values are not an immediate concern. However, those who will need to draw on home values in order to fund a reasonable retirement will face critical decisions, such as whether to sell the house, take a reverse mortgage, rent out all/part of the house, etc.
    - Some will also face strain from mortgage obligations or an increase in the mortgage interest rate. This is a major issue for those who need to draw on their home values.

[1] Society of Actuaries. 2009. Segmenting the Middle Market, Phase 1 (April). http://www.soa.org/research/research-projects/pension/research-segmenting-market.aspx

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The committee's mission is to initiate and coordinate the development of educational materials, continuing education programs and research related to risks and needs during the post-retirement period. Individuals interested in learning more about the committee's activities are encouraged to contact the Society of Actuaries at 847.706.3500 for more information. Additional information and research reports may be found at http://www.soa.org/research/research-projects/pension/research-post-retirement-needs-and-risks.aspx.

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