Retirement Survey Report
Key Findings and Issues:

Living Longer and Impact on Planning

SOCIETY OF ACTUARIES

ACKNOWLEDGMENTS

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TO OBTAIN A COPY OF THE COMPLETE SURVEY REPORT

The 2015 Risks and Process of Retirement Survey report may be obtained from the website of the Society of Actuaries at ***www.soa.org.***

2015 Risks and Process of Retirement Survey

Living Longer and Impact on Planning

Introduction and Background

Over the long term, Americans are generally continuing to live longer, with significant implications for financial retirement planning. Longevity improvement is a key societal trend underlying the choice of longevity as a major area of focus for the 2015 Risks and Process of Retirement Survey, a new study published by the Society of Actuaries (SOA). This has very real implications for public planning and systems that will have to support ever-longer lifespans.

The 2015 study, which focused on individuals' understanding of and planning for longevity, uncovered gaps in knowledge and planning in both areas. This report spotlights a number of those gaps with relevant commentary. These issues are central to the work of actuaries, who play important roles in the financing and design of systems that enable people to retire securely and support long life.

These roles have increased in magnitude over the past century, due to substantial improvements in mortality and the resulting increases in life expectancy. These roles have also gained increased importance during the last century, because during that period, retirement became common and formalized among the working population, and retirement ages declined a great deal. As a result, Americans began spending more years in retirement. It is true that, in recent times, the average age of retirement has started to creep up a bit. However, the length of time spent in retirement has also increased due to continuous improvements in mortality, resulting in increasing periods of retirement.

This longevity transformation raises many issues for society at large and for the systems that finance retirement. For instance, when combined with lower fertility rates, changing life expectancies point to a very different society—one with a relatively greater proportion of older people who need specialized forms of support. So far, people in the public policy, business and consumer sectors have not adapted very well to the changing patterns of life expectancy and demographics. This has fueled the SOA's interest in exploring public understanding of longevity and as well as how the public plans for longevity.

About the SOA's Longevity Research

This report is part of a much broader focus on longevity by the SOA and the actuarial profession. For instance, several projects have focused on different methods for providing long-term income in retirement, some with a lifetime guarantee and some without any lifetime guarantee.

The Committee on Post-Retirement Needs and Risks (CPRNR) of the SOA has provided materials to help individuals focus on Designing a Monthly Paycheck for Retirement *(http://www.soa.org/Files/Research/research-pen-monthly-paycheck.pdf)*. More recently, the CPRNR has been working on "Age Wise" *(http://www.soa.org/Research/age-wise.aspx)*, a series of infographics designed to help the public better understand longevity issues, with the hope that this will encourage more thoughtful long-term retirement planning.

Other initiatives include the following:

- *Sightlines.* This is a recent project that focuses on identifying the activities that help more people live long and live well into old age. Some highlights from that project are shown near the end of this report. The project is a collaboration between the SOA and several other organizations with the Stanford Center on Longevity.

- *Longevity Illustrator.* Reachable at *http://www.longevityillustrator.org*, this is an online tool that is designed to help individual households project their own longevity. It was developed jointly by the SOA and American Academy of Actuaries.

- *Living to 100 and Beyond.* This is a series of paper calls and symposia that are designed to bring together a multidisciplinary group centered on the topic of longevity. Sponsored by the SOA, the project aims to increase understanding of long life, measurement of high age mortality, modeling of the life span, and services and products to respond to long life. The papers are available online at *livingto100.soa.org/monographs.aspx*. A summary report, at *https://www.soa.org/Research/Research-Projects/Life-Insurance/soa-living-100.aspx*, brings together many of the findings.

The Special Topic Report on Longevity

This Special Topic Report incorporates findings on living longer and the impact on planning as revealed not only in the 2015 Risks and Process of Retirement Survey but also from a series of 12 focus groups and 15 in-depth interviews that the SOA also conducted in 2015. The survey included both retirees and pre-retirees, but the focus groups and in-depth interviews included only retirees and caregivers.

Following is a snapshot of the various studies. (For more detail on this research, please see the section titled **Profile of the 2015 Studies** near the end of this report.)

- *The 2015 survey* evaluates Americans' awareness of retirement risk, how their awareness has changed over time, and how these perceptions affect the management of their finances. It provides quantitative data on views of more than 2,000 older Americans, ages 45 to 80, with pre- and post-retirees split nearly 50/50, as well as nearly 200 widows. The predominant focus is on experiences of middle-income Americans and Canadians. Conducted on the SOA's behalf by Mathew Greenwald and Associates, it is the SOA's eighth biennial study on public perceptions related to retirement risks.

- *The 2015 focus groups* examined how well long-term retirees have coped financially in retirement and how unexpected expenses have impacted their retirement security. The groups were from three cities in the United States and two cities in Canada, and the participants had been retired for 12 to 15 years or longer.

- *The 2015 in-depth interviews* explored long-term care issues with current and former caregivers of long-term retirees in the United States and Canada. The interview subjects had a parent or spouse who needed long-term care in old age, and some interviews included caregivers of retirees.

The SOA is publishing additional Special Topic Reports based on the research initiatives. These additional documents address topics such as retirement risks, shocks and unexpected expenses in retirement, and spending patterns and debt. The home page for the reports is *http://www.soa.org/Research/Research-Projects/Pension/2015-risk-process-retirement-survey.aspx*.

For ease of reading and comparison, all four Special Topic Reports follow the same format. They provide salient findings from the 2015 survey, sometimes with comments from the focus groups and interviews and supplemented by perspectives from some of the SOA's Project Oversight Group members. When focus groups and interviews did not address a particular finding, we clearly indicate this.

The Impact of Mortality Improvement

One simple way to think about mortality improvement is to remember that each generation is living longer than the generation before. However, for many people, the general frame of reference on longevity is how long their parents lived without considering these changes in mortality.

Key findings from the research indicate that people are generally likely to understate life expectancies, and they are more likely to understate their own life expectancy compared to the average. However, even if they do not understate life expectancies, many people fail to focus on the fact that lifespans are variable, and that they or their spouse could be the one who might live to 100. In addition, the SOA research shows that, for many people, planning is relatively short-term and mainly focused on cash flows. Taken together, these tendencies leave people vulnerable to financial failure later in life.

On the positive side, many people want to preserve their assets. These individuals just withdraw and spend the minimum amounts required by law from their retirement funds.

These divergent thoughts and expectations lead to several important questions for actuaries and other retirement professionals and policymakers:

- How can people do better planning? How can we help them?
- Are there products that would serve them better? If so, what products would serve them better?
- How can we encourage people to develop longer-term plans?

1 Assumptions about Lifespan

FINDINGS ON ASSUMPTIONS

Typically, pre-retirees and retirees assume average life expectancy for someone their age and gender will be in their early or mid-80s.

Pre-retirees estimate the average person their age and gender can expect to live to age 83 (median), for example. Retirees feel the average person their age and gender can expect to live to age 85 (median).

Thirteen percent of pre-retirees and 22% of retirees do not say how long the average person can expect to live.

DISCUSSION

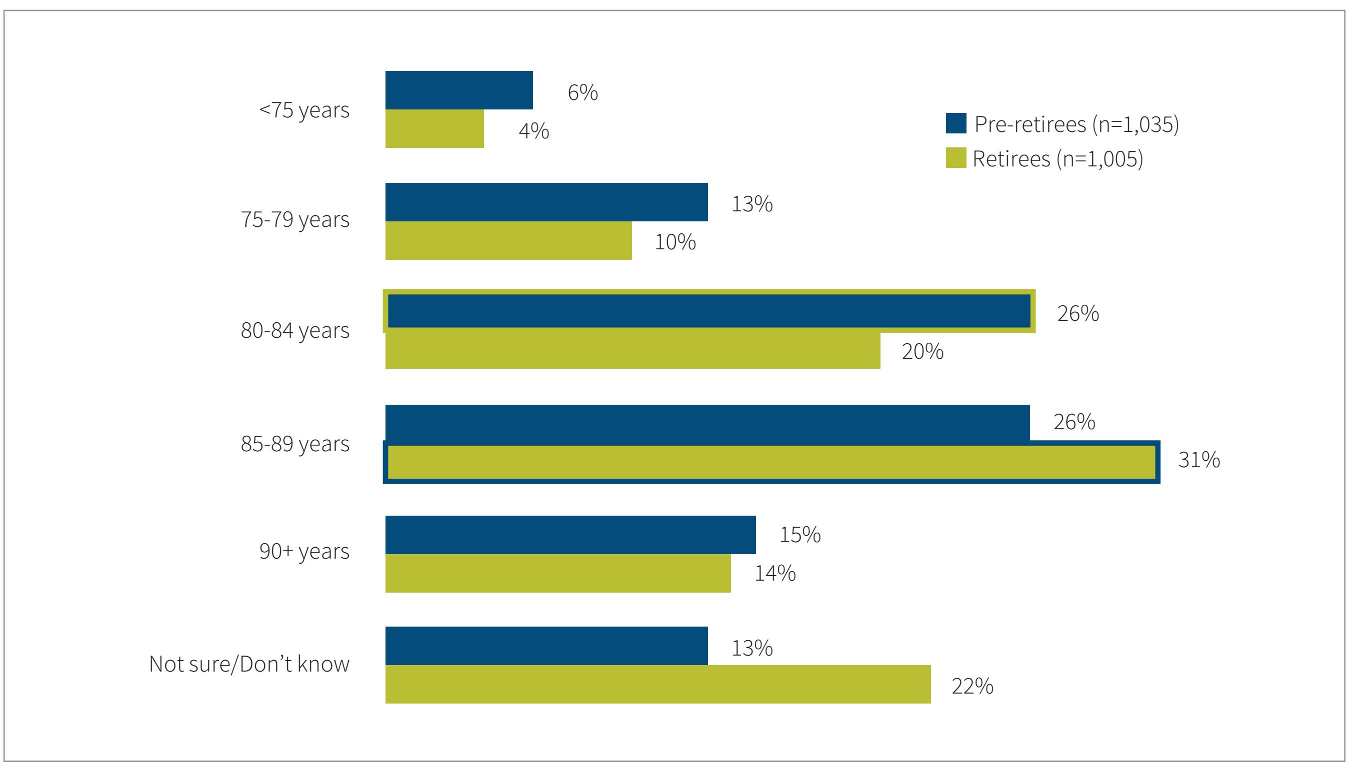
It is worth noting that, while about half of pre-retirees and retirees are assuming an average life expectancy for someone of their age and gender to be in the 80s, only a small proportion of the same groups—6% of pre-retirees and 4% of retirees—assume the average to be under age 75, and only slightly more—13% of pre-retirees and 10% of retirees—put the figure a bit higher, at ages 75 to 79.

These assumptions should be driving financial thinking and behavior, and with noticeable impact by the substantial majority who are assuming longer expectancies, in the 80s and higher. The nature of those thoughts and behaviors bears scrutiny.

Of interest is that nearly one-fourth of retirees said they do not know how long the average person of their age and gender can expect to live. The data do not show reasons for this, but one explanation may include recognition, based on experience, that they cannot predict such an outcome and/or lack of general knowledge about longevity trends.

THE SURVEY QUESTION:

Knowing how long you can expect to live can be important for retirement planning. Until what age do you think the average person your age and gender can expect to live?



2 Longevity Expectations

FINDINGS ON EXPECTATIONS

Typically, pre-retirees and retirees expect to live until a median age of 85.

Both pre-retirees and retirees expect to live until about age 85 (median). However, one-quarter each of pre-retirees and retirees expect to live into their 90s. One-quarter of pre-retirees and one-third of retirees say they are not sure or do not know how long they can expect to live.

DISCUSSION

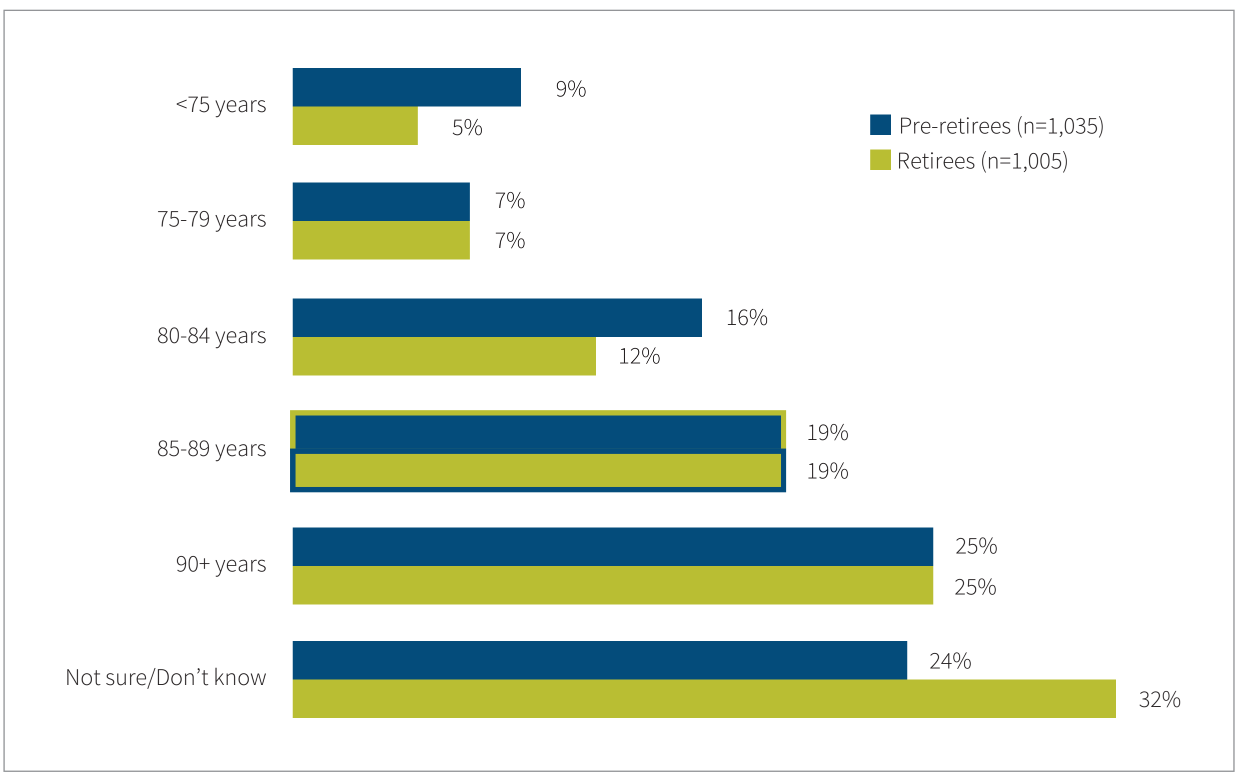
Where their own longevity is concerned, roughly half pre-retirees and retirees foresee long lives lasting at least to the 80s and often longer. This is remarkably close to the longevity they assume for other people of their same age and gender but with this interesting twist: When looking at expecting to live to age 90 and above, 25% of pre-retirees and retirees believe they will live that long. This is nearly twice the percentage of people who assume age 90 and up for *other people* of their same age and gender (15% of pre-retirees and 14% of retirees).

So this particular segment of the group expects generally longer lifespans for themselves than for those of the same age and gender. This expectation may influence various financial and lifestyle decisions that pre-retirees and retirees make.

Those who develop products, policy and systems for this group may need to find ways of factoring generalized expectations into their work, especially in view of the next finding—in Trend 3—about underestimation

THE SURVEY QUESTION:

Until what age do you think that you can expect to live?



3 Tendency to Underestimate

FINDINGS ON TENDENCY TO UNDERESTIMATE

There appears to be a tendency to underestimate personal life expectancy.

Statistically, half of individuals will live beyond actuarial life expectancy, and half will die before they reach it. However, 55% of both pre-retirees and retirees do not expect to live to their actuarial estimate of life expectancy, compared with just 23% of pre-retirees and retirees who expect to live beyond it.

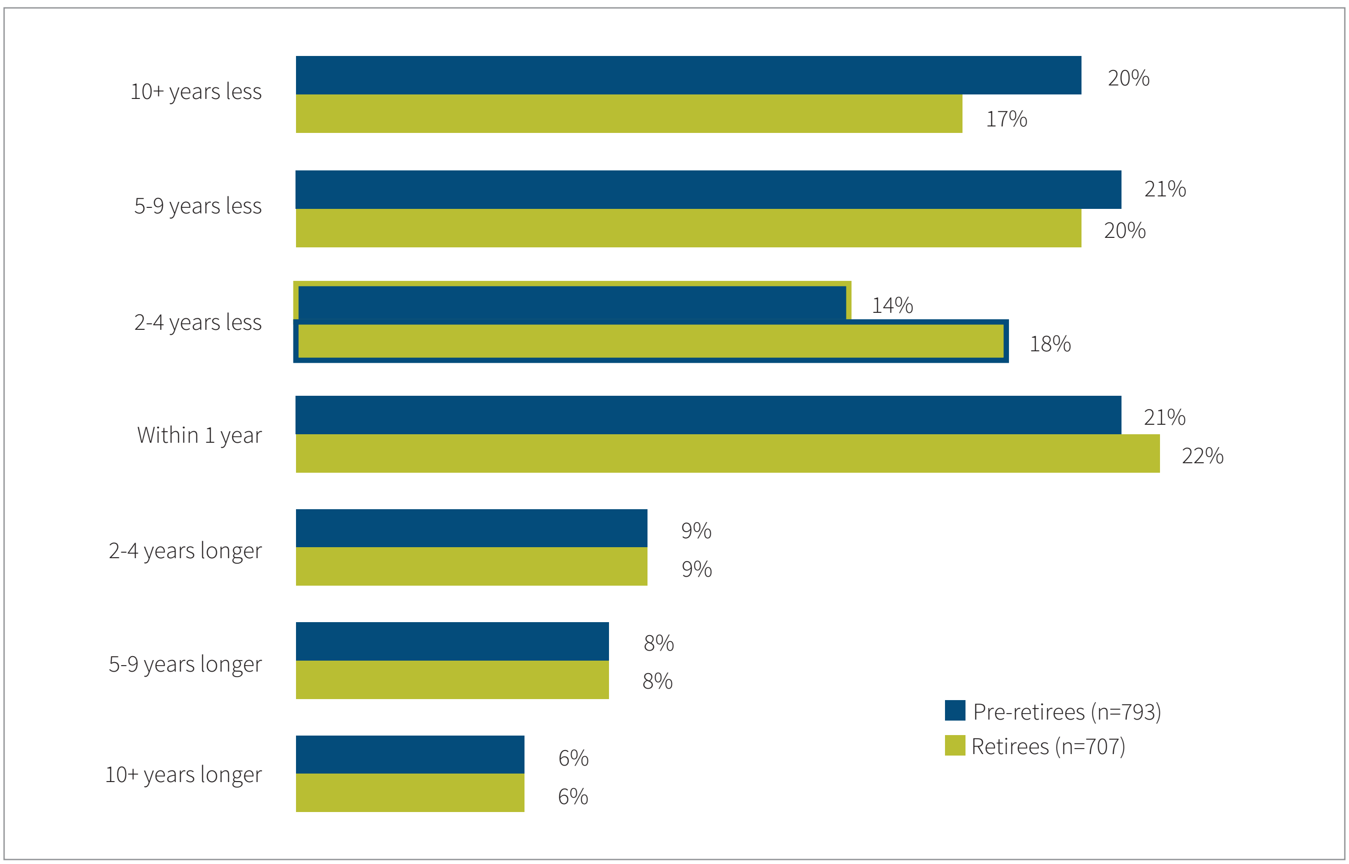
DISCUSSION

Prior post-retirement risk surveys revealed a similar finding. This result is different from the finding in other areas where people have a strong tendency to report being above average. For example, if you ask people how well they perform on their jobs, the results show a distribution far higher than average.

The majority who tend to underestimate personal life expectancy in comparison to actuarial estimates may benefit from educational efforts that help them get a clearer picture of what the trends are—and from products and services that bring this education to them. This could help foster greater "eyes-wide-open" retirement decisions.

RESPONSE ANALYSIS:

Difference between Respondents' Personal Estimate and Actuarial Estimate of Life Expectancy (if provided personal life expectancy)



4 Expectations Related to Longest-Living Relative

FINDINGS ON LONGEST-LIVING RELATIVE EXPECTATIONS

Many people do not expect to live as long as their longest-living relative.

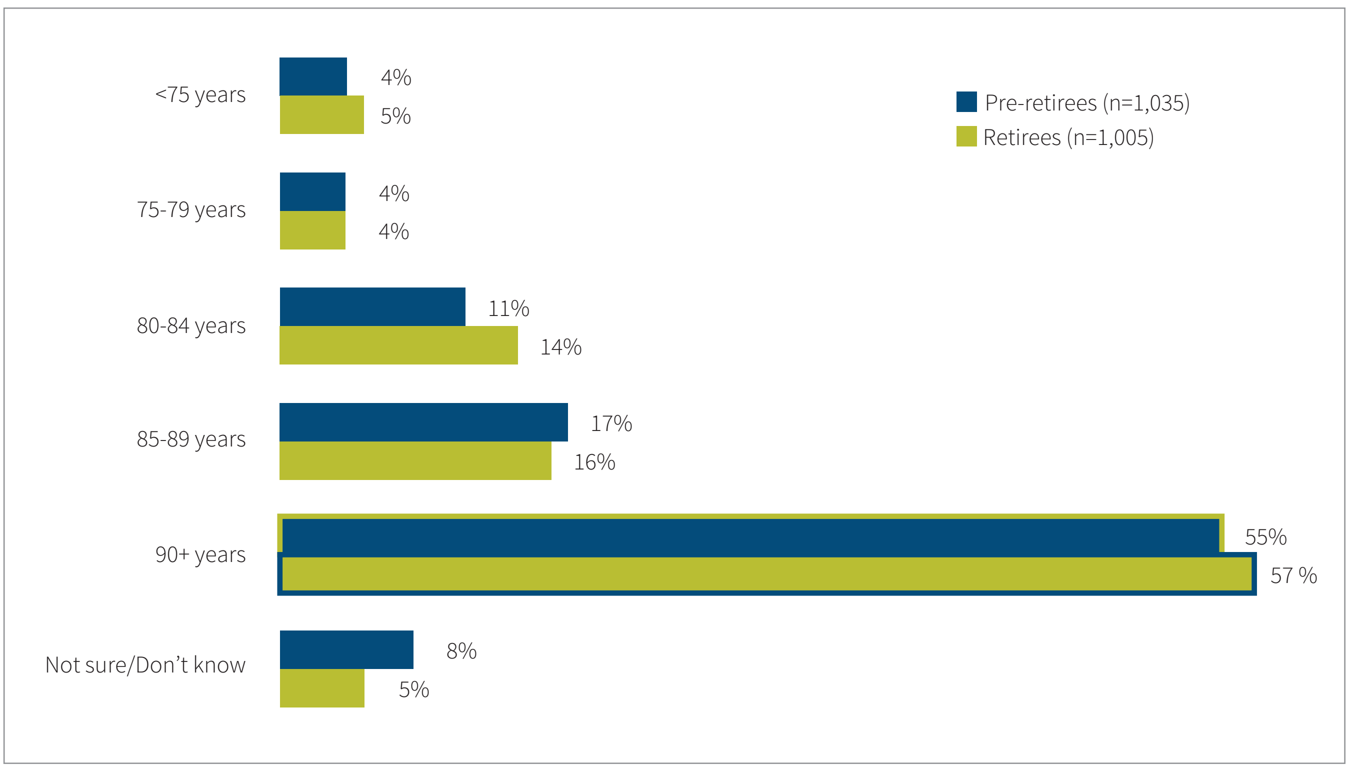
Despite saying that they themselves are only likely to live until about age 85 (median), a majority of pre-retirees and retirees report having at least one relative who lived into their 90s. Moreover, 37% of pre-retirees and 28% of retirees report that they expect to live 10 years less than their longest-living relative.

DISCUSSION

Thinking about the longest-living relative is a way to focus people on maximum life spans, but it does not seem to help very much in focusing them on their situation. One of the challenges is helping people think not only about life expectancy, but also about the longest time that they or their spouse may live. Planning to the average is equivalent to planning to fail half of the time.

THE SURVEY QUESTION:

Please think about the person you knew in your family who lived the longest. How old were they when they died? If this person is still living, please enter their current age.



5 Longevity Expectations Related to Family History

FINDINGS ON FAMILY HISTORY AND LONGEVITY EXPECTATIONS

Most often, people rely on family history when estimating personal life expectancy.

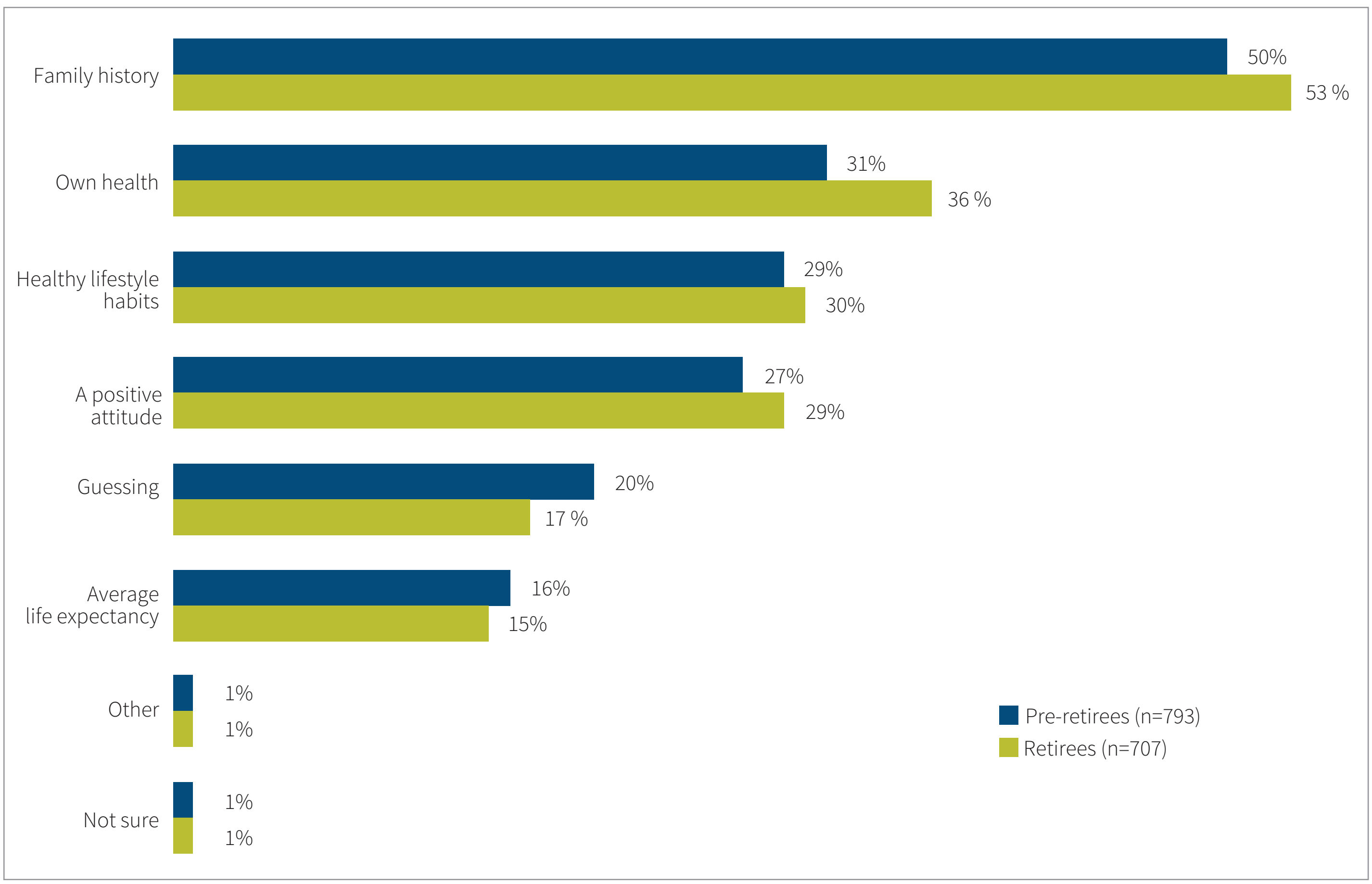
Despite typically identifying a lower personal life expectancy than their longest-living relative, half of retirees and pre-retirees cite family history as a main reason for their estimate. Approximately three in 10 each name their own health, healthy lifestyle habits and a positive attitude as reasons for their estimate.

DISCUSSION

These results present an opportunity for the actuarial profession to encourage people to think more broadly.

THE SURVEY QUESTION:

What are the main reason(s) you think you will live until that age? (Choose up to two reasons) (if provided personal life expectancy)



6 Trends in Individuals' Planning Horizon

FINDINGS ON PLANNING HORIZON

Many pre-retirees and retirees have a planning horizon that is far shorter than their expected longevity.

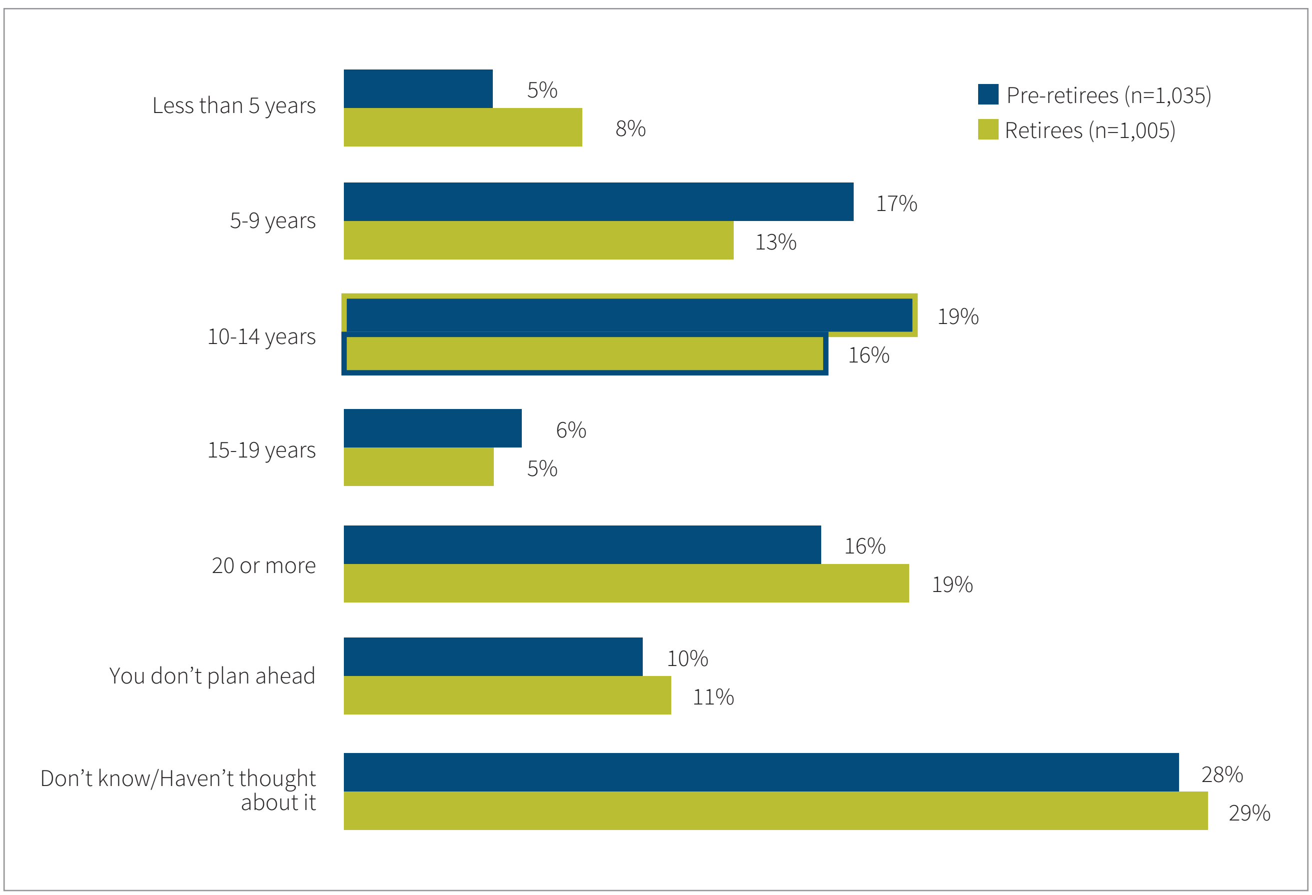
Both pre-retirees and retirees say they typically look 10 years (median) into the future when making important financial decisions. Almost three in 10 report they have not thought about their planning horizon (28% of pre-retirees and 29% of retirees), and one in 10 state they do not plan ahead (10% of pre-retirees and 11% of retirees).

DISCUSSION

Short planning horizons are a major challenge, and the large percentage of "don't know/have not thought about it" responses are especially troubling. The types of planning used are also a challenge. Many people focus on predictable cash flows over the next few years and not on longevity, long-term care and investment risks, the less predictable items and the longer term.

THE SURVEY QUESTION:

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



7 Risk-Pooling Strategies for Managing Longevity Risk

FINDINGS ON RISK-POOLING STRATEGIES

Consistent with previous iterations of this survey, both pre-retirees and retirees tend to focus on the strategies of saving and spending to manage the risks associated with retirement.

For example, almost all pre-retirees (90%) and most retirees (74%) already have tried or plan to try to save as much money as they can. Almost nine in 10 pre-retirees (88%) and retirees (86%) have already eliminated or plan to eliminate all of their consumer debt. Further, eight in 10 pre-retirees (81%) and three-quarters of retirees (76%) already have or plan to cut back on spending.

However, pre-retirees and retirees are much less likely to turn to risk-pooling strategies to manage retirement risks (other than health insurance). Lifetime payout annuities offer a specific method that can be used to manage longevity risk.

For instance, half of pre-retirees (50%) and one-fifth of retirees (20%) indicate they plan to or have already postponed taking Social Security. One-third of pre-retirees (33%) and almost one-quarter of retirees (22%) report they have purchased or are planning to purchase an annuity or choosing an annuity option from an employer plan. Almost half of pre-retirees (46%) plan to postpone retirement, but only 12% of retirees actually succeeded in doing so.

DISCUSSION

These responses should be considered together with asset management strategies. Some households seek to preserve assets, whereas others have a plan for gradually using them and spending them down.

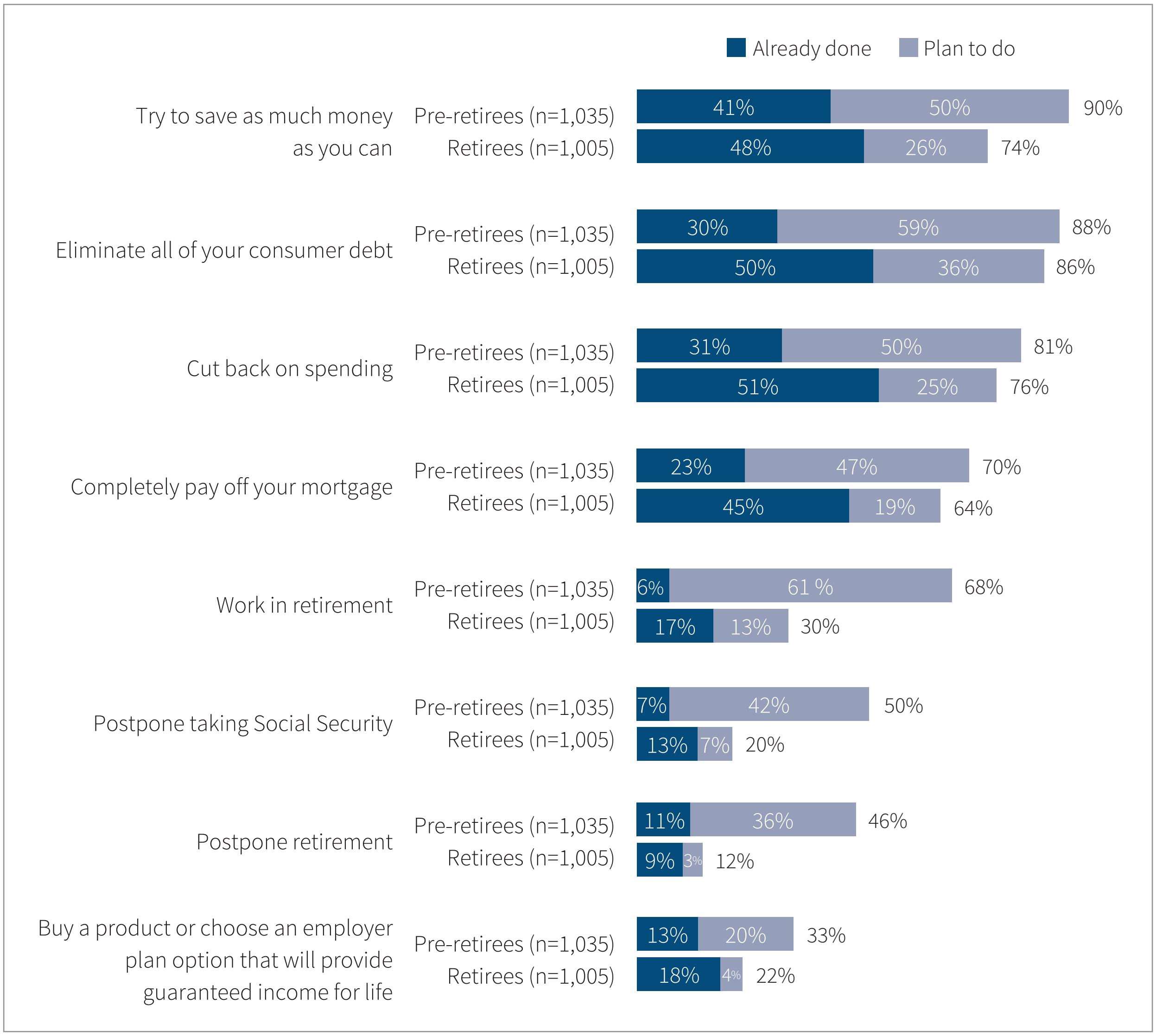
Managing spending and working to preserve assets seems to work out reasonably well in many households that do not experience major long-term care and unexpected events. However, it remains to be seen whether this will work out well when people live a very long time. More work needs to be done to understand what happens to people in their 90s.

FOCUS GROUP QUOTES

- ***"We once had a financial advisor that did a spreadsheet and said that the money will last you till this age. I said what happens after? Do I become a bag lady? He said, "Well, you've got to save more." So we did save. I am a saver."*** —Female, Chicago, IL
- ***"When I was working and making a considerable amount of money every year, if I needed something, I would go buy it. I will tell you something, my wife and I have made shopping and coupon clipping, of course using the Internet, a hobby."*** —Male, Baltimore, MD
- ***"You can do a lot of things that don't cost money, so you have to just spend more time on research and look for the specials in the stores. You can still eat well, just not as much."*** —Female, Edmonton, AB

THE SURVEY QUESTION:

Have you (and your spouse/partner) done the following to protect yourselves financially, plan to do it in the future, or have no plans to do it?



8 Efforts to Reduce Expenditures

FINDINGS ON REDUCING EXPENDITURES

Almost all are likely to try reducing expenditures before turning to other strategies if they run out of money.

In the event of running out of money due to unforeseen circumstances in retirement, nine in 10 report that they would likely reduce expenditures significantly (88% of pre-retirees and 85% of retirees).

Relative to reducing spending, both pre-retirees and retirees are less likely to downsize their housing (65% and 55%) or use home equity to help fund their remaining retirement years (51% and 44%).

Getting assistance from various sources, such as family, friends or community agencies, is among the least likely sources for emergency money. However, retired widows (not shown) are more likely than other retirees to state they are likely to turn to their children or other family members for assistance (35% versus 23%).

DISCUSSION

Reducing expenditures is the major method retirees use to deal with managing the effect of regular and unexpected expenses on their assets. However, they prefer to reduce other expenditures before moving or using their house.

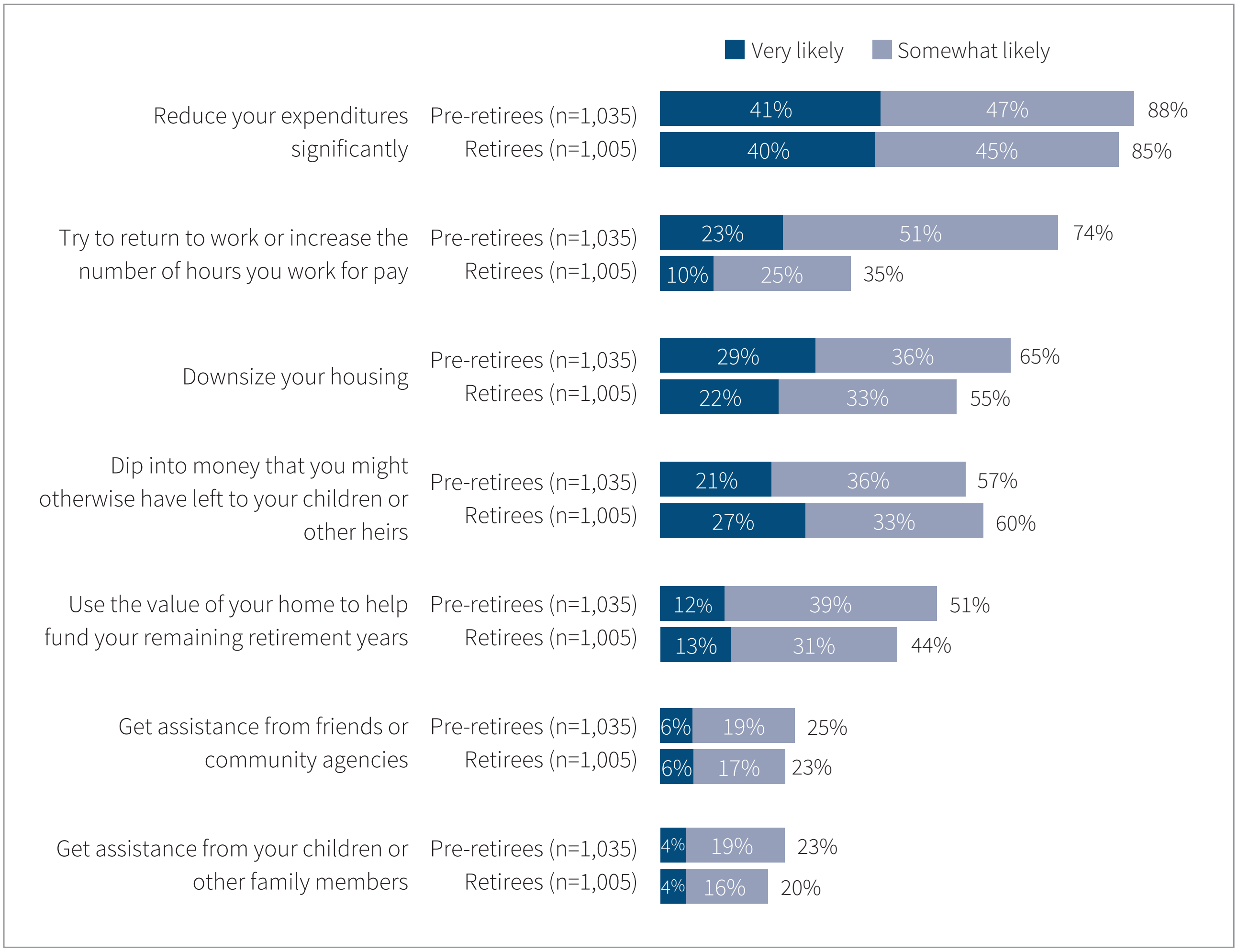
Note that while many pre-retirees expect that they would try to return to work, the number of retirees indicating they were able to do so effectively is much smaller. Note that most retirees will start reducing expenses long before they run out of money.

FOCUS GROUP QUOTES

- ***"I think if I had to take money out of my home in order to live, I would sell my home and get something smaller, which I should do anyway."*** —Female, Chicago, IL
- ***"[Your home is] that last resort. You always hear about the people that lost to foreclosure. You don't risk your home."*** —Male, Dallas, TX
- ***"Our daughter, she said she will build us a place in the backyard. I don't want to live in her backyard."*** —Male, Dallas, TX
- ***"Would you want to go in and live with your children and have them take care of you? My children probably would and I would hate for them to do that."*** —Female, Dallas, TX

THE SURVEY QUESTION:

If you (and your spouse/partner) were running out of money (in retirement) due to unforeseen circumstances, how likely do you think you would be to do each of the following?



9 Expecting to Work Longer but…

FINDINGS ON WORKING LONGER

Pre-retirees expect to work longer than retirees actually worked.

Although the typical retiree retires at age 60 (median actual retirement age), pre-retirees generally expect to retire at age 65 (median expected retirement age). Moreover, almost two in 10 pre-retirees plan to work at least until age 68, and 14% indicate they do not expect to ever retire.

DISCUSSION

There has been a consistent difference between pre-retiree expectations about retirement ages and actual age of retirement through several iterations of the risk survey. In 2013 the risk survey and focus groups also indicated that many voluntary retirees had been "pushed" into retirement. Even voluntary retirement was often a response to a problem rather than a move to meet a dream.

This age difference indicates a potential planning difficulty. If someone is saving to have adequate resources to retire at 65, but retires at 60, significant adjustments in spending will probably be necessary.

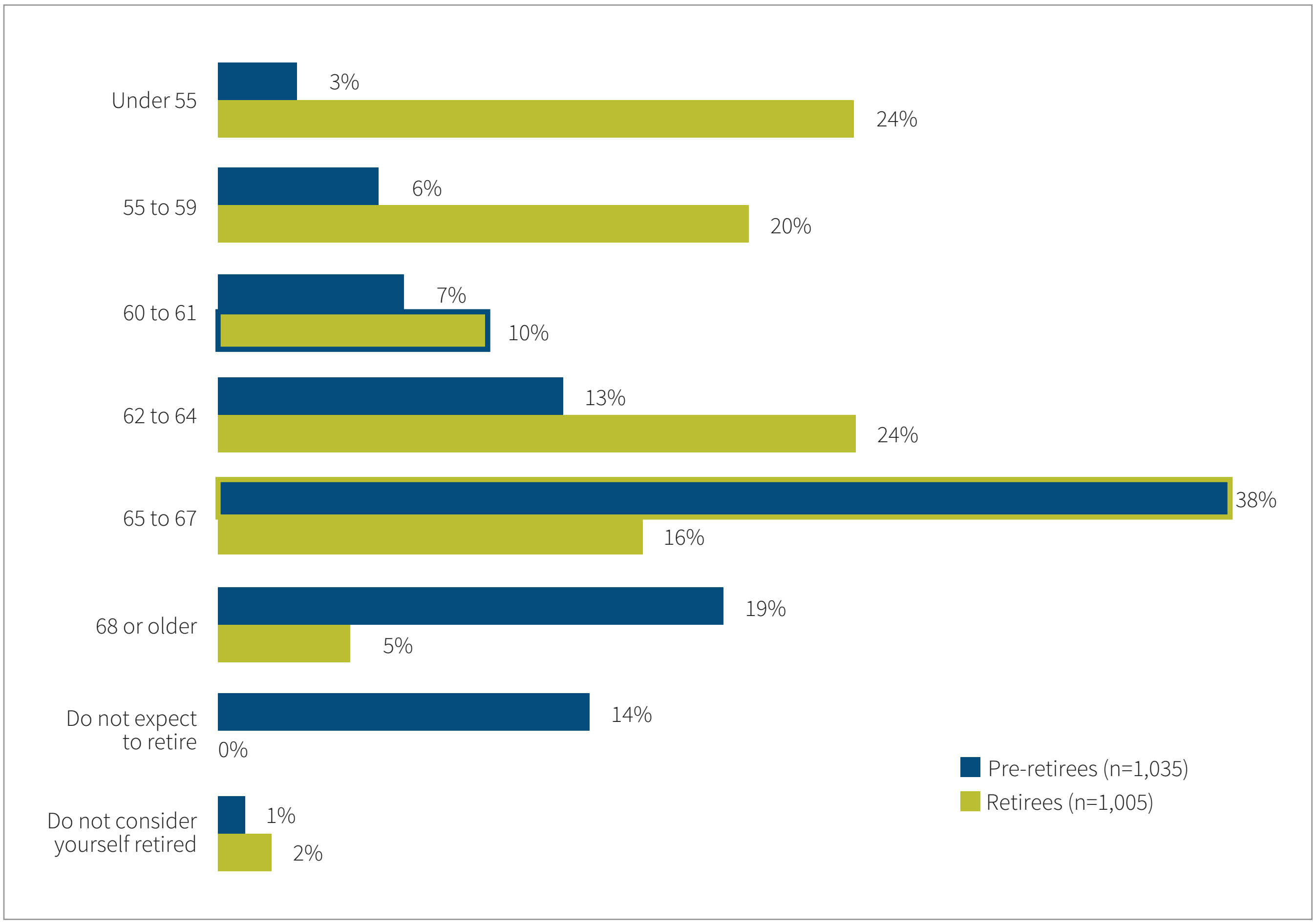
FOCUS GROUP QUOTES*

- ***"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."*** —Male, Chicago, IL
- ***"It was decided for me, because I had health problems. … It just wasn't possible for me to do the things I could do [before] anymore."*** —Female, Baltimore, MD
- ***"What surprised me is that I don't have as much stamina as I used to. … I just feel like I am surprised that I'm slowing down a little, and I don't like that."*** —Female, Phoenix, AZ

*Note: The working longer quotes shown here came from the SOA's 2013 focus group series. The 2015 focus groups did not address this topic. We included the comments here because they are pertinent to issues raised in the 2015 survey.

THE SURVEY QUERY:

Expected/actual retirement age (from primary occupation)



10 Plan to Work Longer than Preferred

FINDINGS ON WORKING LONGER THAN PREFERRED

Many workers are planning to work longer than they would prefer.

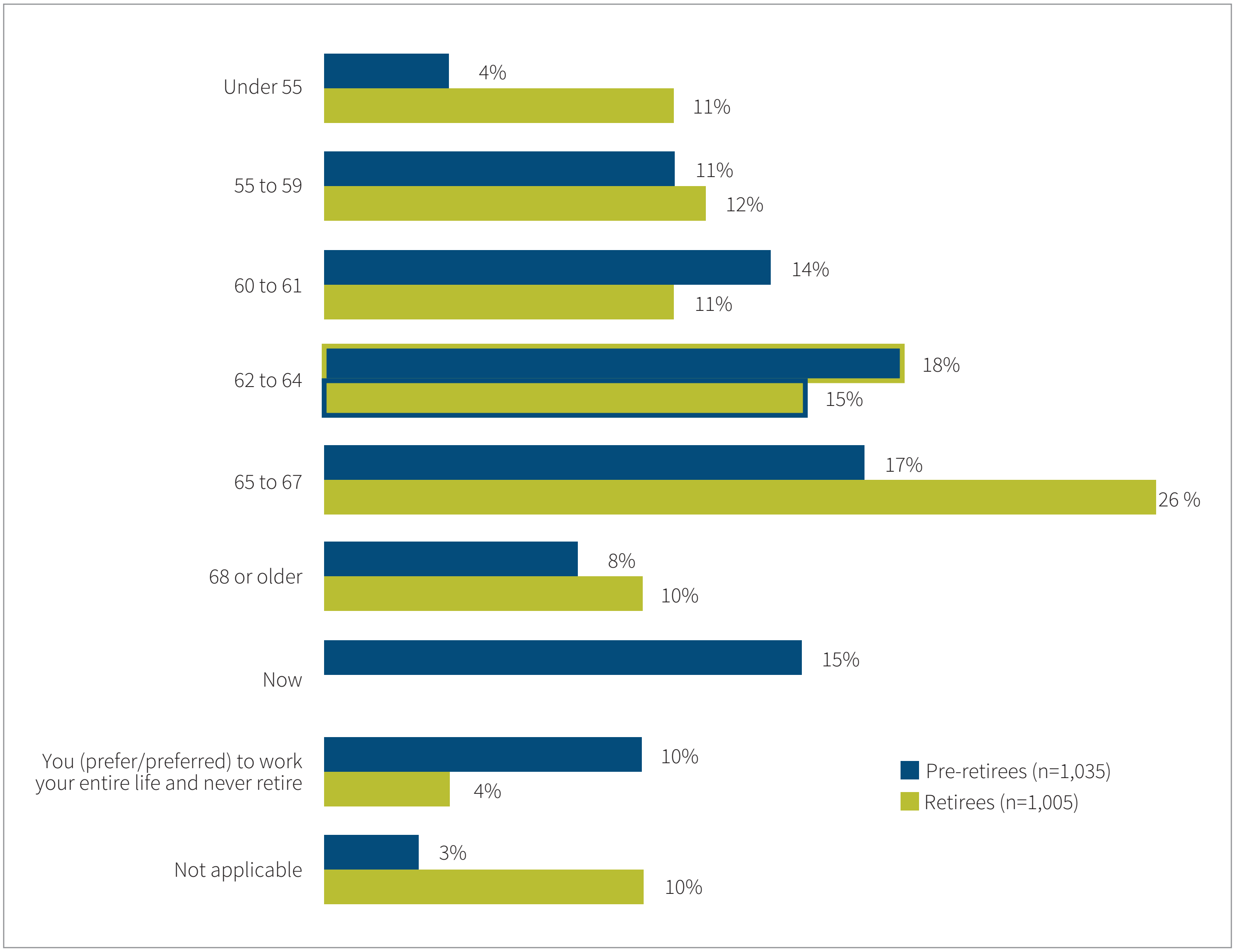
Both pre-retirees and retirees report they would prefer to retire at about age 62 (median), though some prefer a later date. As indicated above, however, the typical retiree actually retired at age 60 (median actual retirement age). So retirees retired earlier than they preferred. As for pre-retirees, they are planning to work beyond their preferred retirement age, into their mid- to late 60s, according to the previous chart; for many, this is at least five years longer than they would have liked to work.

DISCUSSION

While some do retire when they want to, the data show that many do not, and in fact, they retire earlier or later than they would prefer. This is not a new challenge, but with the increasing longevity that has occurred, the challenges are magnified for all concerned, including the leaders and professionals who design products, policy, programs and systems to support longer lives.

THE SURVEY QUESTION:

At what age would you (prefer/have preferred) to retire from your primary occupation?



11 Reasons for Postponing Retirement

FINDINGS ON POSTPONING RETIREMENT

Both pre-retirees and retirees typically postpone retirement for financial reasons.

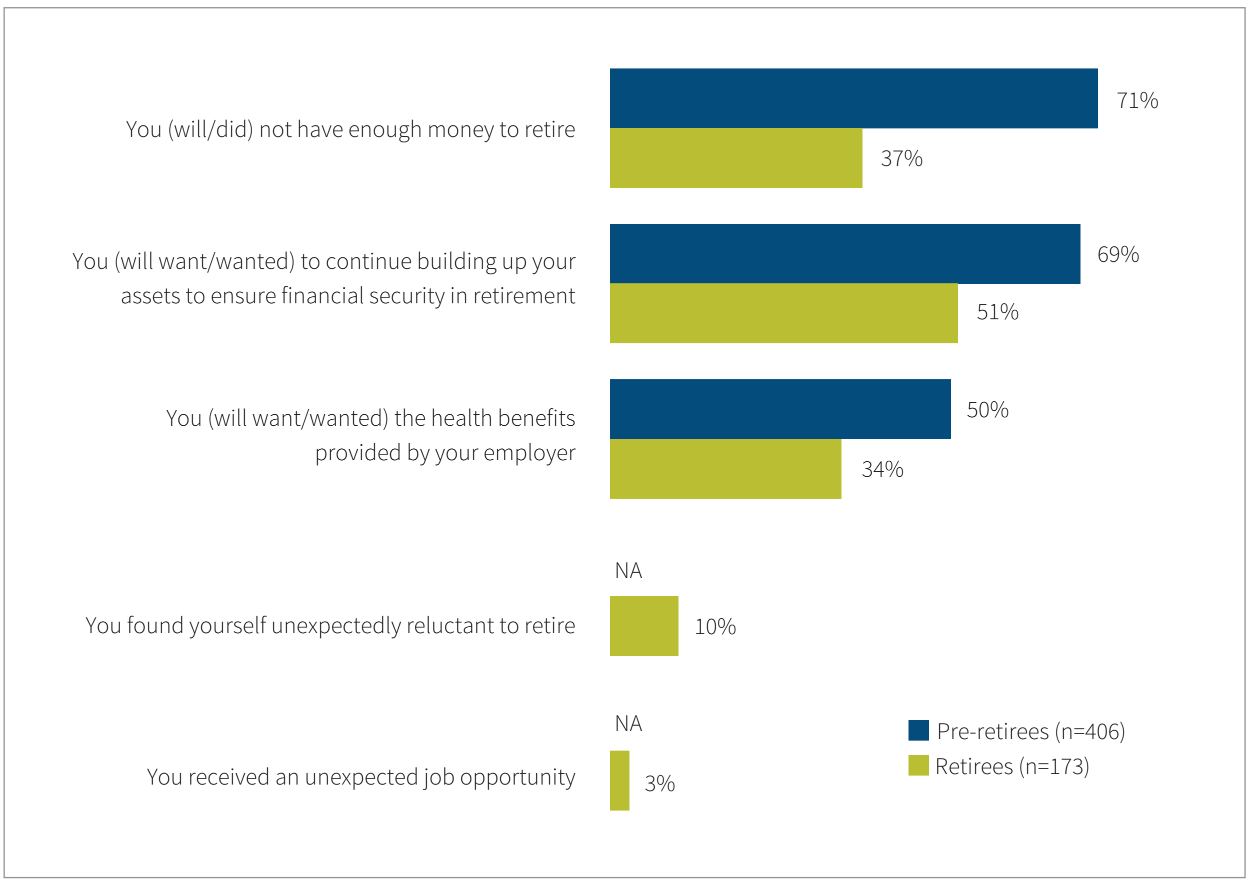
Both groups say they are working (or worked) longer than they prefer because they do not have enough money to retire, want to continue building their assets or want to keep employer-provided health benefits. However, these reasons for working longer than preferred resonate more strongly with pre-retirees than retirees.

DISCUSSION

There are two types of reasons for working longer—economic reasons, including money and benefits, and the desire to stay engaged or capitalize on an opportunity. People may work during retirement or postpone retirement for either type or some combination of these reasons.

THE SURVEY QUESTION:

To what extent are each of the following major reasons why you (will wait longer than you would prefer/waited longer than you would have preferred) to retire? (if working longer than would like)



Related Research

Seeing Our Way to Living Long and Living Well in 21st-Century America

By Anna M. Rappaport

Recently, the Society of Actuaries joined with several other organizations in collaborating with the Stanford Center on Longevity on the "Sightlines" project. This project focuses on what activities are needed to help more people live long and live well into old age. The report was published in February 2016.

This project looks at what factors contribute to a long healthy life, and it has identified data sources to see whether progress is being made over time. It identifies some indicators where progress is being made and others where it is not. Three major domains are identified: Healthy Living, Financial Security and Social Engagement.

The Healthy Living domain includes an examination of smoking, diet and exercise. It points out that lifestyle improvements can lead to longer lives, lower incidence of chronic disease and better mental health. It focuses on healthy behaviors and risky activities. There are positive developments in some areas, but a worsening of behaviors in others over time. Things to think about for the future include national exercise guidelines, food availability, encouraging more activity, employer initiatives and greater use of "feedback platforms." "Feedback platforms" are wearables to help track behavior.

Financial Security focuses on cash flow, investments and risk protection. The study indicates that, with adequate resources, we can expect lower rates of chronic disease, greater life satisfaction, higher rates of social engagement and stronger relationships, and cushioning from the effect of negative life events. The analysis points to an overall decline in economic security in the last 15 years. The report points out that there is an increase in younger households that are at or near poverty levels and that there is also an explosion in debt, particularly among the young. Participation in retirement plans has also dropped, and home ownership is down. In contrast, since implementation of the Affordable Care Act, more Americans have health insurance. Some suggestions of issues to work on to improve the situation include addressing student debt, broadening post-secondary education, expanding access to investment plans and programs, and looking for ways to encourage focus on long-term stability versus short-term consumption.

The last domain is Social Engagement. This includes meaningful relationships and group involvement. The report points out that living patterns have changed dramatically in the last 50 years, with a major decline in the traditional family. Some of the ideas to think about include expansion of employer wellness programs, environmental design focusing on communities and neighborhoods, supporting personal relationships, encouraging volunteerism and examining social media.

Perspectives

It Takes a Village

By Cindy Levering (with thanks to Rev. Thomas Blair, Second Presbyterian Church, Baltimore)

In November of 2015, the headline “Death Rates Rising for Middle-Aged White Americans” *(http://www.nytimes.com/2015/11/03/health/death-rates-rising-for-middle-aged-white-americans-study-finds.html?_r=0)* may have caught your eye as it did mine. Unlike every other age, racial or ethnic group, death rates in the group of working class, middle-aged white Americans have been rising, not falling. The two Princeton economists who did the study concluded that rising annual death rates among this group are being driven not by the big killers like heart disease and diabetes but by an epidemic of suicides and substance abuse, alcoholic liver disease, and overdoses of heroin and prescription drugs. “It is difficult to find modern settings with survival losses of this magnitude. … This is a vivid indication that something is awry in these American households.” An equally troubling article tells the sad story of the death of a woman in rural Oklahoma *(https://www.washingtonpost.com/classic-apps/a-premature-and-unnatural-death-in-rural-oklahoma/2016/04/08/7888a74c-f079-11e5-89c3-a647fcce95e0_story.html):* “White women between 25 and 55 have been dying at accelerating rates over the past decade, a spike in mortality not seen since the AIDS epidemic in the early 1980s. According to recent studies of death certificates, the trend is worse for women in the center of the United States, worse still in rural areas, and worst of all for those in the lower middle class. Drug and alcohol overdose rates for working-age white women have quadrupled. Suicides are up by as much as 50 percent.” This is in stark contrast to the release of the Society of Actuaries’ most recent mortality tables, which show that among males age 65, overall longevity rose from age 84.6 in 2000 to age 86.6 in 2014 and for women age 65, overall longevity rose from age 86.4 in 2000 to age 88.8 in 2014.

On the other hand, you may never have heard of the “Roseto Effect.” Roseto is a small Pennsylvania town, and there was a study done there in the 1960s that showed the incidence of heart disease was significantly lower there than in its neighbor town of Bangor. This set in motion some remarkable research. Roseto was a town of 1,600 Italian-Americans. Every home in town had three generations living in it, and the sense of community was very tight. They lived in mostly row houses, built for the slate miners who settled there.

Teams of researchers tried to determine why the rate of heart attack was so much lower than in nearby Bangor. It didn’t seem to be the result of the usual factors like diet, genes, healthy habits or the physical environment, and the trend held up through the years.

In the end, health officials determined that the secret to good health in Roseto was a lower amount of stress as a result of the close sense of community, with strong bonds of family, friendship and connectivity. The head of the research team wrote in his report: “In terms of preventing heart disease, it’s just possible that morale is more important than jogging or not eating butter.”

Interestingly, the initial research team predicted that the health benefits would diminish as successive generations “Americanized” and lost their tight-knit sense of community. A 50-year study found their prediction to be accurate *(http://www.ncbi.nlm.nih.gov/pmc/articles/PMC1695733/)*. While those in Roseta initially had a lower mortality rate from heart disease than Bangor residents, the rate grew to more closely match Bangor’s as Rosetans lost their cohesive relationships.

A recent Washington Post article *(https://www.washingtonpost.com/national/health-science/loneliness-grows-from-individual-ache-to-public-health-hazard/2016/01/31/cf246c56-ba20-11e5-99f3-184bc379b12d_story.html?tid=sm_tw)* cites loneliness as a public health hazard. “In public health, we talk all the time about obesity and smoking and have all these interventions, but not about people who are lonely and socially isolated,” said Kerstin Gerst Emerson, an assistant professor at the University of Georgia’s Institute of Gerontology. “There are really tangible, terrible outcomes. Lonely people are dying, they’re less healthy, and they are costing our society more.”

Another Washington Post article *(https://www.washingtonpost.com/news/inspired-life/wp/2016/03/02/harvard-researchers-discovered-the-one-thing-everyone-needs-for-happier-healthier-lives/?tid=sm_tw)* examines research from Harvard that quality, stable and consistent relationships and human connections are key to a happy and healthy (which in turn we hope will lead to a longer) life. We all know how important early bonding is for babies in their ability to establish trusting relationships as they grow older. But the need for human interaction continues at all ages and involves more than just having a lot of Facebook friends!

The articles referenced in the first paragraph found a link between both chronic pain and mental illness with the ability to socialize which can lead to substance abuse or suicide. They also talk about a generation that has lost hope in their ability to be more successful than the prior generation. It does indeed “take a village” for all of us!

The Roles of Insurance in Addressing Retirement Risks for Retirees and their Beneficiaries

By Tom Toale

The Society of Actuaries' "2015 Risks and Process of Retirement Survey Report of Findings" highlighted several of the most important risks faced by retirees and pre-retirees, as ranked by them. This Special Topic Report focuses on issues raised by the historically long time people may expect to live after the typical age 65 retirement – which increased from about 13.8 years for a male in 1970 to 19.4 today (per Social Security studies) – an increase of over 40%! It is interesting that many of the risks posed (or exacerbated) by increased "retirement lifetimes" are addressable by insurance. And for some risks, for some groups, the existence of programs like Social Security, Medicare and Medicaid reduce or eliminate risks and (thus) their importance. This essay is intended to help readers attain a preliminary understanding of what risks should concern them, and whether and how insurance can help them address those risks.

The main risks identified were:

1. **Meeting the costs of Long-Term Care (LTC)** The likelihood of disabling physical or mental conditions occurring increases with age – e.g., dementia of some form affects 18% of those between 75 and 84 but 47% of those over 85 (Darcy, 2012, Neurological Rehabilitation).

   Concern about these expenses was justifiably widespread. It was actually most prevalent among the lowest income respondents who in many cases will have them covered by Medicaid. However this concern may be based on unnecessarily pessimistic assumptions. A study by the Department of Health and Human Services ("Why are US Nursing Home Utilization Rates Declining", August 2009) states that "The number if nursing home residents per 1,000 people aged 75 and over fell by 19.9% between 1997 and 2007", due to factors including expanded home services & residential care facilities (including assisted living communities) In addition, while private Long-Term Care Insurance exists, it can be expensive if it is obtainable at all – underwriting criteria have become stricter and carriers have exited the market. Only severe disabilities are covered by such insurance. There is a need for evolution of both the products, to allow more flexibility in terms of covered end-of-life expenses (e.g., in-home assisted care), and for marketing methods more tailored to the demographic group for whom these expenses would be devastating, i.e., who are not likely to qualify for Medicaid, and who both understand and afford the coverage.

2. **Investments / Income may not keep up with inflation** This concern may seem odd given that inflation from January 2008 until year end 2015 totaled 12.1% - until we realize that boomers endured that level of **annual** inflation repeatedly in the late 70's (anyone else remember "Whip Inflation Now" buttons?) And while it's easy to dismiss too much concern as a behavioral ("anchoring") issue, even modest inflation over anticipated post-retirement lifetimes - now extending 30 years for some couples - will be an issue. Social Security is of course indexed, which will address this concern for many retirees and beneficiaries. But the indexing is not a perfect reflection of changes in costs for retirees; there was no increase this year, though seniors – with perhaps lower transportation expenses and higher medical and prescription costs – may well have seen an increase in their personal living costs. Indeed, from 1990 to 2011, "medical inflation has exceeded the CPI by an average of 3.3% per annum'" "The Problem with Indexing", national Right to Life Committee, referencing Bureau of Economic Analysis and Bureau of Labor Statistics data). (Para) For those for whom SS benefits represent a relatively modest share of retirement income, however, inflation risk opens a variety of concerns – how should I allocate investments? What spending rule – e.g., the 4% rule – should I adopt? How do I react to inflation or a market crash? Should I buy an inflation-adjusted annuity? The latter may be the most logical solution to this problem for many; however there are clearly "sticker shock" issues – especially for inflation-adjusted annuities. And there are behavioral issues such as the desire to retain control of assets. Longevity annuities (discussed below) purchased in one's early 60's but

not payable until (typically) 85 have a smaller up-front cost to provide peace of mind when cognitive abilities decline in later ages. Reverse mortgages can also be used to generate periodic income as long as one continues to live at home; in a sense, a "Do It Yourself" longevity annuity, readily accessible at an advanced age

3. **Health Care Expenses** Medicare covers many but not all medical expenses. Many insurers offer supplemental insurance – and coverage (and premiums) vary significantly. It does not cover dental expenses; "Major Dental Expenses" were the second most frequently reported "shock" (after major household repairs) reported by those surveyed. Dental insurance can be used to help address these expenses. Complexity is one barrier to optimal utilization of Medicare coverage; the various categories (Parts A, Hospital, B Medical, C – private Medicare plans like HMO's and PPO's – and Part D for outpatient prescriptions) confuse many to start. The array of plans – and variety of coverages - offered to retirees for parts C and D is mindboggling. This leads many to seek recommendations from friends who may be in very different health or financial circumstances. These factors certainly lead to poor selections. And dental insurance appears to be both expensive and to offer limited coverage – until an issue arises.

   It is difficult to overestimate the difficulty of making a well informed choice of which coverages to buy, particularly those related to private insurance under Medicare Parts C and D. The assistance of a truly independent insurance broker familiar with the products "on offer" and willing to take time to understand your medical history, prescription needs and budgetary constraints seems vital – and the most vital things are his or her knowledge and independence.

4. **Depletion of Savings / Inability to maintain standard of living:** Though separate "issues" in the SOA report, they are clearly correlated, and the likelihood of one or both occurring increases with age for the vast majority of us. While the simple act of budgeting would be a huge help here, the fact remains that most people do not budget beyond the short-term. One solution would clearly appear to be to A) compose a reasonable monthly budget B) calculate your shortfall after Social Security and Defined Benefit plan payments (if any) and C) buy an annuity sufficient to fund the shortfall. The balance can be used to meet "surprise" expenses, unplanned expenses, or left as a bequest to family or favorite charities. However issues such as prices that seem high (until one recalls how long they hope to receive payments), complexity and concerns about losing control over one's retirement funds, make this "common sense" approach unpopular. However a relatively new annuity form – a "Qualified Longevity Annuity Contract" (QLAC) – offers significant protection against running out of money in extreme old age, and at a modest cost. At its most straightforward, one pays a premium to an insurer at or around retirement and – if still living – receives a monthly annuity at (typically) age 85. Due to factors such as the long deferral period, payouts can be large compared to a traditional income annuity that pays immediate benefits; for example, per *https://qlac.direct*, a male depositing $50,000 at age 65 would receive $27,000 per year at age 85.

This essay is meant simply to remind the reader that "insured" solutions do exist for some, if not most, economic challenges faced in retirement. Couples should remember that resources need to protect the survivor when the first dies. Long-term care insurance, survivor annuities and life insurance can all pay a role in this.

Wide utilization of these solutions will however require a shift in thinking on the part of retirees from the current "hope for the best" attitude to one in which there is an acceptance that some expenses – e.g., long-term care – are unpredictable at the individual level, potentially devastating financially, but predictable – and that insuring against those events may make sense. In most cases for most people, they will also require a good deal of research and/or obtaining advice from a knowledgeable and unbiased advisor, ideally functioning in a fiduciary capacity.

Conclusion

The risk survey provides insights about how a broad cross section of Americans think about longevity. For instance, roughly half of both age groups foresee their personal longevity as reaching into the 80s or longer.

A basic understanding of longevity is critical to retirement planning. However, the SOA research found a lack of awareness about many aspects of longevity that is a barrier to effective retirement planning and decisions.

For instance, many Americans still tend to underestimate their own life expectancy. As noted in Longevity Trend 3, just 23% of pre-retirees and retirees expect to live beyond their actuarial life expectancy estimate, even though statistics show that half of individuals will live beyond it. Lack of awareness about what actually happens can get in the way of people making realistic decisions involving their possible lifespan.

Case in point: The research found that many pre-retirees and retirees have a planning horizon that is far shorter than their expected longevity. This could lead to retirement planning and decisions that are not optimal and that may in fact prove to be harmful in the long run. If an older person gets into financial trouble, options they may have previously considered—such as returning to work, downsizing or borrowing from family and friends—may not be possible. The retirement outcome could be very unpleasant.

The Sightlines project and numerous other research initiatives by the SOA and others are working to identify what people need to know about longevity and living well into old age. The hope is the combined efforts will illuminate ways to increase awareness as well as strategies that match the longevity trends that actuaries already have identified.

Profile of the 2015 Studies

The SOA surveys include new questions with each iteration, and they don't repeat all questions from year to year. The SOA does this to further the understanding of key issues as well as keep readers current with changes in perception of risk. 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.

Some details on the three sets of 2015 studies follow:

The 2015 Risks and Process of Retirement Survey was 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. Like the SOA's longevity study in 2013, the 2015 survey was conducted through online interviews.

As part of the 2015 survey, the researchers interviewed 2,040 adults ages 45 to 80 (1,005 retirees and 1,035 pre-retirees) in August 2015. The researchers also collected 198 interviews among retired widows. The participants were selected by using Research Now's nationwide online consumer panel.

The researchers analyzed the survey responses from current retirees and those not yet retired (referred to in these reports as "pre-retirees") separately. The pre-retirees and retirees represent all income levels.

Particular care was taken to ensure that the income distribution of respondents matched the income distribution of Americans overall in the age range of 45 to 80. This was done through a combination of fielding targets and weighting. The research does not provide specific insights concerning high-net-worth individuals, and the researchers made no effort to oversample individuals with high levels of assets. Only 6% of pre-retirees and 9% of retirees reported having investable assets of $1 million or more.

The 12 focus groups were conducted in June and July of 2015 in five locations: Baltimore, MD; Chicago, IL; Dallas, TX; Kitchener, ON; and Edmonton, AB. This study was designed specifically to understand how middle-income market retired Americans and Canadians manage their assets and spending decisions over the long term. It looked at longer-term retirees who had been retired for 12 to 15 or more years and had investable assets between $50,000 and $350,000. None had household incomes of more than $2,000 a month from rental properties and defined benefit plans, a restriction that allowed researchers to focus on people with some financial constraints.

The focus groups were separated by asset level and by gender. In addition, some groups focused on those who had experienced marital change in retirement.

The in-depth interviews were conducted with people whose parent or spouse needed long-term care in old age. The researchers did these interviews because retirees experiencing long-term care events were not represented in the survey or the focus groups.