PUBLIC MISPERCEPTIONS ABOUT RETIREMENT SECURITY

Closing the Gaps

LIMRA International

A 2007 Report

PUBLIC MISPERCEPTIONS ABOUT RETIREMENT SECURITY — CLOSING THE GAPS

Eric T. Sondergeld, ASA, CFA, MAAA
Corporate Vice President
LIMRA International
860-285-7754
esondergeld@limra.com

Mathew Greenwald, Ph.D.
President
Mathew Greenwald & Associates
202-686-0300 x101
mathewgreenwald@greenwaldresearch.com

© 2007, LIMRA International, Inc., the Society of Actuaries, and Mathew Greenwald & Associates

007448-0407-650-G23 Printed in U.S.A.

CONTENTS

ACKNOWLEDGMENT

LIMRA International, Inc., the Society of Actuaries, and Mathew Greenwald & Associates would like to acknowledge the members of the Society of Actuaries Committee on Post-Retirement Needs and Risks and others that contributed to this project. This project is a joint undertaking of the three organizations and is sponsored by the Society of Actuaries Committee on Post-Retirement Needs and Risks. The report presents a number of recommendations for improving the retirement security system. These recommendations reflect the views of the authors and were prepared with input and encouragement from the Committee on Post-Retirement Needs and Risks. They do not represent the opinions of LIMRA International, the Society of Actuaries (or any committee) or Mathew Greenwald & Associates. The authors wish to thank the following individuals for their input.

Anna M. Rappaport, *Chair*, SOA Committee on Post-Retirement Needs and Risks

Steve Cooperstein, Steve Cooperstein & Affiliates

Matthew Drinkwater, LIMRA International

Emily K. Kessler, Society of Actuaries

Connie S. Lam, PricewaterhouseCoopers LLP

Daniel G. Landsberg, ING US Financial Services

Zenaida Samaniego, U.S. DOL Employee Benefits Security Administration

It should be noted that the recommendations in this report are based on incremental changes to the existing retirement system. The Society of Actuaries is currently engaged in a dialogue among a diverse group of pension professionals to think about new forms of retirement plans and to seek a "third way" to provide retirement benefits, recognizing that existing plans do not work well for many people. The Retirement 20/20 project is in the early phases and that exploration and work is not covered in this report. Watch for more on ideas about improving the system and going beyond the recommendations in this report.

INTRODUCTION

For the last quarter century, there has been a growing focus on encouraging workers to take more responsibility for saving and preparing financially for their retirement. Several major laws were enacted to provide tax incentives for people to save for retirement, both through employer-sponsored defined contribution retirement plans and on their own. Through Individual Retirement Accounts, 401(k) plans, Keogh Plans and others, workers have access to vehicles for accumulating money for their later years. Accompanying a growing focus on these savings opportunities, there have been major efforts by financial services companies, employers, and a wide range of financial advisors to motivate people to save, to educate them about the need to prepare financially for retirement, and to teach them about investing. There has also been a growing body of research about how people react to this education and how they make decisions about saving and using their money.

Our 2005 review of consumer understanding, *Public Misperceptions About Retirement Security* revealed major gaps in both retirement preparation and knowledge about financial preparation for retirement, despite the major efforts to help people take more responsibility. In addition to attitudinal and behavioral finance research, there is other evidence of insufficient public understanding: historically low rates of saving and significant underfunding of retirement, based on age, desired (and expected) needs in retirement, and target retirement date. Some of the underfunding has been caused by people being forced to retire before they wanted to. In other cases people have voluntarily left the work force with accumulations that are clearly far short of what they require to continue their lifestyle over retirement. In 2004, 39.5 percent of men were no longer working by age 61, including many who were forced to stop working for health reasons. Many who retire clearly do not have enough money and will be forced to try to seek employment later (which is often not easy) or end their lives with a greatly reduced standard of living.

A key question is: Where do we go from here? How can we stop a large number of those in the next generation to retire from being forced to end their lives in deprivation? The size of this generation, their increased longevity and lifestyle expectations, in conjunction with increased health care costs, decreased likelihood of defined benefit plans, and gradual reductions in replacement rates from Social Security (after Medicare Part B premiums and taxation of benefits are considered) mean that it will take a concerted effort from several areas to maximize financial security for the next generation to retire. Although educational efforts have not succeeded as we have wished, it is clear that these efforts must continue and become more effective. To help the next generations to retire with financial security, all major institutions must do more. There are two paths to doing more: providing programs that work without individuals making choices on their own, and providing more education and encouragement. This paper is an attempt to move these efforts forward by presenting ideas for what consumers, employers, financial professionals, financial services companies, and government should do to help deal with the ongoing retirement challenges. We hope these ideas will stimulate thought and lead to constructive action by all involved.

CHAPTER 1: SAVING TOO LITTLE

MOST PEOPLE HAVE NOT TRIED TO ESTIMATE HOW MUCH MONEY THEY WILL NEED FOR RETIREMENT. MOREOVER, THOSE WHO HAVE CALCULATED THIS AMOUNT OFTEN UNDERESTIMATE WHAT THEY WILL NEED TO MAINTAIN THEIR PRE-RETIREMENT LIFESTYLE IN RETIREMENT.

Consumers

- If your employer offers a 401(k) or another retirement savings plan, consider contributing at least up to the maximum employer matchable amount.
- If your employer does not offer any retirement savings plans, use Individual Retirement Accounts (IRAs) to save for retirement.
- Be sure you know what resources are available from any defined benefit pensions and include those in your savings estimates.
- If you are under age 50, develop basic targets for how much you should accumulate for retirement by specific ages, such as ages 35 or 40.
- By age 50, you should think through the lifestyle you would like to have in retirement and how long you wish to be able to maintain that lifestyle (e.g., for the rest of your life, for the first ten years of retirement). Then calculate how much you will need to accumulate by a target age for retirement to afford your desired lifestyle. If you cannot achieve this target you may need to work longer or adjust your standard of living in retirement.
- If you are older than age 50, review your debt load and consider sharply reducing it.
- Only retire after you have made a calculation of what level of lifestyle your accumulation, plus other income such as Social Security, can reasonably be expected to provide throughout your retirement.

Employers

- Make a retirement savings plan available, even if you do not think your company can afford to make matching contributions.
- Consider offering a defined benefit plan.

- Give employees under age 50 information about how much they should have saved at specific ages, as a proportion of their income, so workers can know what is required to maintain their standard of living in retirement.
- Provide employees ages 50 and over with tools to help them calculate how much they must accumulate by target retirement dates meet retirement income needs,, how much they should save by the end of each year to be on track to reach accumulation targets by the desired age, and how much sustainable income can be derived from specific accumulation levels at specific ages.
- Maximize the amount of 401(k) contributions your company matches.
- Consider introducing automatic enrollments and automatic step-ups in deferral each year.
- If possible, offer job flexibility to those who cannot afford to retire or who wish to continue with some work for other reasons, and offer benefit options that fit these workers' needs.

Financial Professionals

- Work with clients over age 50 to make sure they are on track to reach their retirement savings goals. Have each of these clients think through the standard of living they want and develop a goal for how much they need to accumulate by retirement to achieve that goal.
- Educate customers about the financial risks they will face in retirement. Provide them with information on different financial vehicles and strategies they can use to protect themselves against these risks and how much these vehicles cost.

Financial Services Companies

- Help consumers determine how much they need to save for retirement, incorporating all retirement expenses, such as health care and long-term care.
- Develop retirement savings calculators that incorporate the specifics of a consumer's retirement lifestyle, health care needs, etc. as retirement nears.
- Reinforce existing solutions, including educational programs and products that help people save for retirement.

Government

- Encourage employers to offer savings plans and make it easy for them to do so. Support safe harbors for auto-enrollments and effect defaults in such plans that make it possible to help employees who do not take an active role.
- Provide information with the annual Social Security benefit statements on how much money workers must save by the age of entitlement for full Social Security benefits to replace 80 percent of projected income by that date for the retirement period. Base the calculation on adjusting income each year to keep pace with inflation.

CHAPTER 2:
NOT KNOWING WHEN RETIREMENT WILL OCCUR

MANY WORKERS WILL RETIRE BEFORE THEY EXPECT TO, AND BEFORE THEY ARE READY. RETIREMENT COULD COME FOR MANY REASONS, INCLUDING DISABILITY, LOSS OF EMPLOYER, OR THE NEED TO CARE FOR SPOUSE, PARENTS OR OTHER FAMILY MEMBERS.

Consumers

- Understand that the longer you plan on working, the greater the risk that illness or disability will interfere with your ability to work. Saving for retirement should not be deferred too long.
- Defined benefit plans may pay benefits before Social Security and other income sources. Understand what benefits are payable should you become disabled or if you have to retire earlier than you expect.
- Retain disability insurance throughout your working years.
- Consider purchasing insurance that will continue contributions to retirement plans if you become disabled.
- Consider part-time or seasonal work to supplement your retirement income if you are forced to retire before you are ready and you are still able to work.

Employers

- Develop opportunities for phased retirement, job sharing, and other mechanisms to enable older employees to stay in the workplace.
- Offer employee benefit plans structured to include "savings insurance" so that retirement plan contributions continue for those employees that become disabled.
- Provide disability insurance to employees, and also consider programs that would offer suitable jobs for long-term employees who become disabled and can no longer do their current job, but who wish to remain active in the workplace.
- For employees who need or want to work part-time later in life, discuss what options are available and consider offering them access to benefits.
- Consider offering part-time employment and flexible work schedules and other ways to make your workplace friendly to older workers who may need to work to supplement their incomes.

Financial Professionals

- Encourage clients to save enough for retirement necessities by age 62.
- Encourage working-age customers to purchase disability income insurance to make sure they have incomes in the event they become disabled. For those clients that become disabled and are covered by such insurance, encourage them to set aside a portion of the benefit for retirement savings.
- Prepare clients for the possibility of having to work during retirement, if they are able.
- Encourage the purchase of financial products, such as disability insurance and continuation of retirement plan contributions in case of disability.

Financial Services Companies

- Develop educational materials that include the level of risk employees face in having to stop work before they want to, and how they can protect themselves against the financial consequences of that possibility.
- Develop savings insurance that will continue to pay an employee's retirement plan contributions in the event they become disabled.

Government

- Use Social Security mailings to inform people about the incidence of disability above age 50 and the need to save early for retirement.
- Encourage employers to offer defined benefit and defined contribution pension plans, and improve the climate for these plans.
- Improve the ability of employers to offer the payment of retirement benefits while employees remain employed.

CHAPTER 3:
LIVING LONGER THAN PLANNED

AS INDIVIDUALS LEARN TO MANAGE THEIR OWN RETIREMENT FUNDS, THEY MAY NOT UNDERSTAND THAT LIFE EXPECTANCY IS A VERY LIMITED PLANNING TOOL. IN FACT, SOME RETIREES WILL LIVE LONG BEYOND THEIR LIFE EXPECTANCY, WITH A SUBSTANTIAL RISK OF OUTLIVING THEIR SAVINGS.

Consumers

- Understand the likelihood of the average person your age (or the age you plan to retire) living to an advanced age. Combine this with information about your own health and the longevity of your parents and other relatives.
- Understand the meaning of life expectancy and its limitations for planning purposes. First, your life expectancy at birth is lower than your current life expectancy or your life expectancy at age 60 or 65. Second, life expectancy must be used cautiously as a planning tool. About half of the population live longer than their life expectancy, making it very risky to plan financially to live just up to your life expectancy.
- If you are married, understand that the chance of you and/or your spouse living long is greater than your individual chances. For example, for couples reaching age 65 there is nearly a 50 percent chance that at least one of them (and possibly both of them) will still be alive at age 90.
- Make sure you have the financial resources to last a long life, in case you do have a longer than average retirement.

Employers

- Provide tools to educate employees about the variability of life spans and the chance of living to selected ages and how this will affect their retirement savings and income strategies.
- Give employees information about methods of using retirement assets to provide sustainable income and how much sustainable income can be derived from specific levels of accumulation.

Financial Professionals

- Educate yourself and your clients about longevity risk and help them personalize their own longevity predictions, using health risk factors and relatives' longevity histories.
- Help clients develop the most effective strategies for dealing financially with the uncertain timing of death. Since a lifetime annuity can be an effective vehicle to help accomplish that, make sure you have a good understanding of this product and its most effective role in the portfolio of retired clients.

- Educate clients about the need for adequate resources at the older ages and the corrosive effect of long-term inflation on purchasing power.
- Help clients target their retirement savings to make sure savings are sufficient to support a long life.
- Design retirement income streams for your retiring and retired clients that can last well beyond life expectancy, recommending lifetime income sources for clients that need them.

Financial Services Companies

- Do not include life expectancy in product and education materials. Instead, educate customers about longevity risk by using phrases such as "the chance of living to…."
- Since it is unreasonable to expect all consumers to be actuaries and familiar with mortality rates, probabilities of living to specific ages, etc., develop ways to educate customers about their chances of living a long life.
- Life insurance companies should promote lifetime annuities (including inflation protection) as a way to reduce or even eliminate longevity risk or the need to fully understand how long a person might live. This includes developing financial strategies that help retired people deal with the financial consequences of the uncertain timing of death.
- Modify online retirement savings calculators to take into account the likelihood of living beyond life expectancy. Most of today's calculators either assume the consumer dies at life expectancy (or thereabout) or that he or she converts all of his or her savings into lifetime income. Both types of calculators result in inadequate savings targets.
- Develop a new generation of financial products that help people protect themselves against the financial consequences of very long life. The growing proportion of people who live into their 90s will face multiple pressures on their financial resources, including high medical expenses, high risk of needing long-term care or supportive housing arrangements, and diminished purchasing power through long-term exposure to inflation.
- Look for ways to reduce confusion about the word "annuity" and clarify the difference between deferred and immediate annuities.

Government

- Communicate, through Social Security mailings, updated information about life expectancy at age 65 and the chances of living to selected ages.
- Advise future retirees about the impact on Social Security replacement rates as Medicare Part B and D premiums (which are deducted directly from Social Security benefits) are raised and as more beneficiaries are exposed to the taxation of benefits because the threshold at which taxes are triggered is not indexed for inflation.

Chapter 4: Not Facing Facts About Long-Term Care

Many people underestimate their chances of needing long-term care. Relatively few people either own long-term care insurance or can afford to self-insure an extended long-term care situation.

Consumers

- Investigate purchasing long-term care insurance. For many people this decision should not be delayed, as premiums for new policies increase quickly with age and some consumers may become uninsurable if they wait to apply for long-term care insurance. While most people wait until their 60s or even 70s to purchase, it is much more affordable for people in their 40s and 50s. However, the market for long-term care services and the policies both change over time.
- Research and consider visiting Continuing Care Retirement Communities in your area or the area where you plan to retire.

Employers

- Consider offering group long-term care insurance to employees, their spouses, and their parents.
- Offer educational information about long-term care risk and the most effective ways of funding this risk even if your company does not offer long-term care insurance to its employees. Help employees focus on the questions they might ask as they think about whether to buy long-term care insurance.

Financial Professionals

- Educate consumers about their chances of needing long-term care, the financial implications of an extended long-term care situation, the fact that Medicare only covers very specific situations involving long-term care, and that Medicaid provides coverage only for those who have virtually no assets.
- When appropriate, recommend long-term care insurance to your clients or refer them to a company or other professional that offers such coverage.

Financial Services Companies

- Help educate customers about long-term care risk.
- Encourage the financial professionals you work with to either offer long-term care insurance or, because navigating state and federal regulations and programs can be quite complicated, team up with other financial professionals that specialize in long-term care.
- Life insurance companies should continue to develop more effective products that cover developing long-term care arrangements and that provide coverage bundled with other products such as (income) annuities or life insurance, and that offer cost effective protection against a variety of risks.
- Develop new product options that use home equity as part of the financing for retirement and long-term care.

Government

- Encourage state experimentation with different programs to encourage the purchase of long-term care insurance.
- Encourage employers to provide advice to their employees about the need to insure against the possible cost of long-term care, and provide employers with incentives to offer long-term care insurance to their employees and their employees' spouses and parents.
- Provide enabling legislation to encourage the use of long-term care insurance in programs that let family caregivers provide their own long-term care without relying so heavily on Medicaid.
- Search for alternative structures that provide public/private partnerships to cover long-term care risk more effectively.

Chapter 5: Trying to Self-Insure Against Long Life

Although people find guaranteed lifetime income attractive, in practice they usually choose to receive retirement plan benefits in lump-sum form. They pass up opportunities to get a lifetime pension or annuity, failing to recognize the difficulty of self-insuring longevity.

Consumers

- Seek professional advice when faced with the prospect of managing retirement savings for the rest of your life.
- When retiring from a job with a defined benefit pension plan, seriously consider the consequences of taking a lump sum (if offered) instead of a lifetime income from the pension plan. Consider using the proceeds from retirement savings plans at work to buy annuity income. If your employer offers a preferred purchasing arrangement, be sure to investigate it.
- Purchase insurance products such as lifetime annuities to eliminate your chance of running out of money in retirement and greatly reduce the chance of having to reduce your standard of living in retirement.
- Consider using longevity insurance to effectively manage retirement finances and to protect your financial security against the financial stresses of long life.
- Consider working longer to reduce the period over which you need to rely on retirement savings.

Employers

- Provide retirement income management information to employees nearing retirement. If you do not wish to provide direct information, provide information about available resources.
- Include lifetime annuities as options available to retirees from 401(k) and other retirement savings plans and consider making the annuity option the default.
- Advise older employees about the most effective asset allocations in retirement.
- Offer employees a review of their accumulation, and advice on the level of lifestyle that can be maintained throughout retirement if they retire at their target date.

Financial Professionals

- View offering lifetime income solutions to your clients as part of, not as a threat to, your value proposition.
- Help your clients determine how much and from which sources they can expect guaranteed lifetime income and how to increase that amount through various strategies.
- Offer clients without enough guaranteed income with advice on how much money they should target to retain at key ages, such as 75, 80, and 85, to ensure financial security throughout life.

Financial Services Companies

- Educate customers about the benefits of lifetime income.
- Life insurers should offer and promote their lifetime annuity products to distributors that do not currently offer them.

Government

- Analyze regulatory barriers to the provision of lifetime income in defined contribution plans, and work to eliminate them and encourage defined contribution plans that provide lifetime income payouts.
- Understand the interaction of minimum required distribution (MRD) rules with strategies to provide lifetime income that involve gradual purchasing over time. Update MRD rules to support such purchasing and to not interfere with a variety of purchasing strategies.
- Provide a safe harbor for lifetime income as the default distribution option in defined contribution plans.
- Consider tax incentives for annuities provided through various sources, including defined benefit plans, annuities purchased with proceeds from defined contribution plans, and annuities purchased by individuals from post-tax savings.

CHAPTER 6:
NOT UNDERSTANDING INVESTMENTS

DUE TO THE GROWTH OF WORKPLACE RETIREMENT SAVINGS PLANS, WORKERS ARE NOW RESPONSIBLE FOR MANAGING INVESTMENTS FOR RETIREMENT. HOWEVER, MANY WORKERS MISUNDERSTAND INVESTMENT RETURNS AND HOW INVESTMENT VEHICLES WORK.

Consumers

- Seek professional advice to determine how to allocate retirement savings.
- Consider investing in targeted retirement date funds which offer an investment mix that shifts over time to take less risk as you get closer to your retirement date.
- Determine your asset allocation and stick with it for a set period, doing regular re-balancing. As you age you should revise your asset allocation to keep it current with asset levels, shortening life expectancy, and evolving conditions. Attempts to time the market by making frequent transfers among retirement assets will more often than not prove unsuccessful.
- Develop withdrawal plans (the money you will live on in retirement) that maintain the proper asset allocation, are most tax effective, and preserve assets.

Employers

- Offer solutions in defined contribution plans that simplify the investment allocation decision process. These include investment advice, target maturity funds, and funds that are automatically rebalanced.
- Offer automatic enrollment in defined contribution plans together with default investment options and automatic increases in deferrals.
- Limit the number of investment choices in your company's defined contribution savings plan. Studies show that a larger number of funds is associated with an increased likelihood of poor investment decisions and with non-participation.
- Continue to offer education to employees about the nature of investment options and strategies for allocating retirement plan contributions and assets.

Financial Professionals

- Asset allocation in retirement should be considerably different than asset allocation during the working years. Financial professionals should develop advice for retirees at different asset, risk tolerance, and lifestyle expectation levels, on what their asset allocations should be.
- Broaden the concept of asset allocation to include risk sharing products, in addition to pure investments.
- Offer local adult education classes on the basics of long-term investing.

Financial Services Companies

- Educate consumers about investment risk.
- Develop and reinforce product solutions that simplify the investment allocation decision or that efficiently hedge investment risk.
- Consider new ways of defining risk tolerance when helping customers determine asset allocations, weighing the customer's ability to sleep at night vs. the risk of insufficient savings due to too conservative an investment allocation.
- Educate financial professionals and consumers about the need to broaden the concept of asset allocation to include risk sharing products as well as pure investments.

Government

- To help future workers, add investing and other financial life skills to the mandatory public education curriculum.
- Encourage employers to facilitate the provision of investment and asset allocation advice to their employees. Promote safe harbors and fiduciary guidance.

Chapter 7:
Relying on Poor Advice

A significant portion of retirees and pre-retirees do not seek the help of a "qualified professional." Yet they indicate a strong desire to work with a financial professional.

Consumers

- In the years leading up to retirement, seek out information from reliable, objective websites and the assistance of a financial professional to help sort out the myriad issues involved in planning retirement.
- Ask financial professionals for their credentials and to demonstrate why they believe they have expertise in retirement planning.
- Ask financial professionals how they are compensated, including whether their compensation varies based on your decisions. Some professionals are paid flat fees, some hourly, some receive commissions for products they sell or on trades they make, and others are paid a yearly percentage of managed assets. A combination of these methods can be used.
- Recognize that co-workers, friends, and family members are not financial professionals. As such, their financial advice should be taken with caution.

Employers

- Engage qualified financial professionals to come to the worksite and provide financial planning and retirement asset management advice to your employees.

Financial Professionals

- Develop expertise in retirement planning, including getting related professional designations and insurance and securities licenses.
- If you sell investment and insurance products to people near or in retirement, approach such clients with the recognition that if you do a good job educating and advising them, opportunities to recommend appropriate products and services will result as will a potential for increased referrals.
- Disclose to your clients how you are paid.

Financial Services Companies

- Find ways to determine what competencies and knowledge define a qualified retirement professional and create programs to develop them.
- Help train and position as qualified those financial professionals your company works with.
- Strengthen efforts to train your representatives in retirement income planning.

Government

- Offer guidance to employers for facilitating the provision of advice beyond investment advice to cover broader financial and retirement planning issues.
- Improve disclosure of fees for services rendered.

Chapter 8: Not Knowing Sources of Retirement Income

Workers misunderstand what their primary sources of income will be in retirement, and may be disappointed when trying to live on the income available to them.

Consumers

- Develop an inventory of retirement income sources. The most common retirement income sources include: Social Security, employer pensions, annuities, withdrawals from savings, and part-time employment.
- Update your records at least once a year and track how well your savings are doing in meeting your plan.
- Estimate how much income each retirement income source will provide, if each is guaranteed for life, and if the income will keep up with inflation.
- Consider what role home equity can play in providing financial security in retirement and understand the various ways that home equity can be used to supplement income while retaining ownership of your home and living in it.

Employers

- Ask your defined contribution plan provider to offer retirement income planning services to your employees.
- Regularly provide statements of income available from defined benefit plans.
- Provide employees with sources of impartial information on retirement income planning and links to appropriate websites.

Financial Professionals

- Offer retirement income planning advice to all clients and help them create a retirement income plan.

Financial Services Companies

- Since many consumers tend to overestimate income from savings, underestimate Social Security income, etc., help customers realistically view their retirement income sources and their relative importance.
- Educate customers about the danger of relying on earned income in retirement. Many consumers won't be able or willing to work and their skills may become out of date.

Government

The government is already doing an excellent job of informing workers, through annual statements, of what income to expect from Social Security.

Chapter 9: Failing to Deal With Inflation

Inflation is a fact of life that workers usually deal with through pay increases. But after retirement, few people can increase their income to keep pace with the cost of living.

Consumers

- Determine which income sources will keep up with inflation. Social Security does, but most private sector employer defined benefit pensions do not. Public employee defined benefit plans often do keep up with inflation.
- Consider starting with less retirement income so that you can afford increasing income in retirement, or recognize that living on a fixed income will result in a declining standard of living over time.
- Understand that income must go up with the cost of living to retain purchasing power. For example, if inflation is 3 percent per year for nine years, the cost of living will be 30 percent higher after that nine year period.
- Understand that the inflation rate for retirees is different than that for working people because retirees tend to buy different products and services. The government computes a Consumer Price Index for older people: the CPI-E. This cost index has been going up faster than overall inflation, mainly because health care costs have been increasing and older people are more likely to use health services.

Employers

- Make automatic increases in 401(k) deferrals a default option at the time of salary increases.
- Consider inflation-adjusted payout options (including lifetime annuities) in retirement savings plans.

Financial Professionals

- Educate clients about the impact inflation can have, especially over long periods of time.
- Help clients build retirement income streams that keep up with inflation.
- Know about TIPS (Treasury Inflation-Protected Securities) and consider how they can be used in portfolios to hedge against inflation risk.

Financial Services Companies

- Incorporate inflation into programs aimed at helping consumers determine how much they need to save for retirement.
- Educate customers about inflation risk.
- Promote annuities that increase or can increase over time.
- Develop truly inflation-adjusted income annuities.

Government

- Publicize the CPI–E in general, and through Social Security annual statements.
- Encourage insurers and other financial service companies to develop inflation-protected instruments backed by TIPS.

CHAPTER 10:
NOT PROVIDING FOR A SURVIVING SPOUSE

MANY MARRIED COUPLES FAIL TO PLAN FOR THE EVENTUAL DEATH OF ONE SPOUSE BEFORE THE OTHER. THIS CAN HAVE SERIOUS CONSEQUENCES, ESPECIALLY WHEN THE SURVIVOR IS THE WIFE.

Consumers

- Do not necessarily assume that a particular spouse will die first, or assume when each of you will die. Nor should you assume that you and your spouse will die at the same time. Often the survivor lives for many years after the first spouse dies.
- Consider electing joint-and-survivor options from your pension and retirement savings plans or purchasing joint–and-survivor lifetime annuities with your savings.
- Consider purchasing life insurance that will pay upon either, the first, or the last of your deaths depending upon your particular needs.
- Know which income sources will be lost or reduced (such as Social Security) when a spouse dies, and know what services a spouse performs, such as minor home repairs, that will have to be purchased after that spouse dies. Also estimate what levels of expenditure will decrease, such as food cost, after a death. On average, one person needs about 75 percent of what a couple needs to maintain the same standard of living.
- Understand that *when* you choose to start Social Security benefits can greatly impact the amount of benefit paid to your surviving spouse.

Employers

- Promote the joint-and-survivor options of your pension plans for your married, retiring plan participants.
- If your company's defined contribution plans do not offer annuity options, consider adding them or a means to make an annuity purchase through a rollover IRA, including joint-and-survivor options.

Financial Professionals

- Provide information about the gap in life expectancy between men and women and suggest several strategies, such as lifetime annuities with joint-and-survivor options and/or life insurance as ways to protect the surviving spouse.

Financial Services Companies

- Educate customers on the chance of one member of a couple surviving longer.
- Promote joint-and-survivor annuities and life insurance as ways to insure against the timing of death in retirement.

Government

- Provide a safe harbor for lifetime income as the default distribution option in defined contribution plans.
- Communicate about how the timing of taking Social Security benefits impacts a surviving spouse.
- Update the spousal benefits in Social Security to recognize dual-earner families.

LIMRA International is a worldwide association providing research, consulting and other services to nearly 850 insurance and financial services companies in more than 60 countries. LIMRA was established in 1916 to help its member companies maximize their marketing effectiveness through cooperative research and research-based products, consultation, and educational services.

Mathew Greenwald & Associates, Inc. is a public opinion and market research company that has conducted customized research for more than 200 organizations, including many of the nation's largest corporations, trade associations, and nonprofit organizations. Founded in 1985, Mathew Greenwald & Associates, Inc. has earned a reputation for research expertise and commitment to serving the needs of their clients.

The Society of Actuaries is a nonprofit educational, research, and professional society of 17,000 members who are involved in the modeling and management of financial risk and contingent events. The mission of the SOA is to advance actuarial knowledge and to enhance the ability of actuaries to provide expert advice and relevant solutions for financial, business, and societal problems involving uncertain future events.

LIMRA International
300 Day Hill Road
Windsor, CT 06095-4761 U.S.A.

Mathew Greenwald & Associates, Inc.
4201 Connecticut Avenue NW
Suite 620
Washington, DC 20008-1158 U.S.A.

Society of Actuaries
475 N. Martingale Road
Suite 600
Schaumburg, IL 60173-2226 U.S.A.

007448-0307-650-0G23PUBLIC