

SOCIETY OF ACTUARIES

Retirement

KEY FINDINGS
AND ISSUES:

Working in Retirement

2011 RISKS AND PROCESS OF RETIREMENT
SURVEY REPORT

>> July 2012

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Introduction and Background

AN UNDERSTANDING OF HOW PEOPLE RETIRE is particularly important in light of today's aging society. The 2011 Risks and Process of Retirement Survey examines this issue, among others. This report presents key findings on how people retire, why they time it the way they do, what work in retirement looks like, and also provides context for the results in relation to other studies. This report brings together survey findings, interpretations of the research oversight group, and related perspectives. Additional reports in this series cover an overview of retirement risks and more detailed examinations of longevity risk and the impact of the economy.

The 2011 Risks and Process of Retirement Survey is designed to evaluate Americans' awareness of retirement risk, how their awareness has changed over time, and how their awareness affects the management of their finances. The survey was conducted through telephone interviews of 1,600 adults ages 45 to 80 (800 retirees, 800 pre-retirees) in July 2011. Households were selected for participation from a nationwide targeted list sample. The margin of error for study results, at the 95 percent confidence level, is ± 4 percentage points for questions asked of all retirees or all pre-retirees.

Current retirees, half of whom retired before age 60, and those not yet retired (referred to in these reports as "pre-retirees") are analyzed separately. The results are based on a representative sample of Americans and do not provide specific insights concerning high-net-worth individuals. Only 6 percent of retirees and 5 percent of pre-retirees report having \$1 million or more in savings and investments, and 6 percent of retirees and 8 percent of pre-retirees report having between \$500,000 and \$1 million. Thirteen percent of retirees and 30 percent of pre-retirees indicate they have household incomes of at least \$100,000. At the low end of the spectrum, 25 percent of retirees and 21

percent of pre-retirees indicate they have less than \$25,000 in savings and investments. Fifteen percent of retirees and 8 percent of pre-retirees report income under \$25,000.

To further the understanding of key issues as well as changes in perception of risk, this series of surveys includes new questions with each iteration, and not all questions are

repeated from year to year. For a balanced perspective, the discussion sections in this report include input from all organizations that supported the studies and material from other related research.

Perspectives

RETIREMENT PATTERNS HAVE CHANGED extensively in recent years, and continue to evolve rapidly. No longer demarcating a sharp transition from full-time employment, retirement is increasingly viewed as a progression, with several steps on a journey from total commitment to work to final exit from the labor force. Formal programs facilitating gradual exit are few, but people today are discovering and reinventing their own routes and the next steps in their “retired” status. For many of them, the critical issue in the “new retirement” is that they need to supplement their income. Others simply want to stay involved by participating in some form of work environment. The ongoing shift away from traditional defined-benefit (DB) plans to more situations where the primary—or even the only—retirement plan is defined-contribution (DC) has greatly reduced incentives to retire early or, for many, eliminated that option entirely. As DB plans decline in importance, retirement risk is being shifted away from employers, and for many individuals having to take on the responsibility of managing their retirement resources is a difficult challenge.

The various stakeholders in the retirement process have different needs and perspectives. The baby boom generation is reaching maturity, with tens of thousands of Americans now turning 65 each day. The way in which this new cohort of seniors exits the labor force is becoming an increasingly important societal issue with major financial implications. Policymakers are trying to keep public program costs down. Employers need talent, whether or not they realize it, and these seniors represent a pool of valuable experience, even as other employers attempt to keep costs down by minimizing their workforces. Many individuals approaching retirement age are seeking a balance between fulfilling their dreams and assuring financial security.

Our societal expectations differ depending on vocation. For example, it is common and anticipated that Supreme Court justices, symphony conductors and congressional

members will work well beyond the ages at which most workers are expected to retire. While certain jobs are physically demanding and most people are unable to perform them by usual retirement ages, many others are not. However, societal expectations over the last 50 years have been that most white collar and professional workers would retire in their 60s, usually by age 65. This perception is changing and more people are trying to work longer.

Those who seek to work as part of their “retirement” may find opportunities limited or unavailable. It is unclear how successful plans to work in retirement will be. For some, any work they may do will be primarily volunteer in nature. As they age, many people experience physical or cognitive decline. There are limits, both physical and mental, as to how long they can expect to work. Health care benefits remain an important part of the picture, particularly for early retirees.

This report presents the results of the Society of Actuaries 2011 survey and offers varied perspectives on working in retirement from members of the project team, some from personal experience. Their perspectives reflect differences in outlook even among a group with similar professional backgrounds and, not surprisingly, many themes in common. They may help readers who are approaching their own retirement, or who have responsibility for advising or assisting others in that passage.

One-third of pre-retirees do not expect to retire.

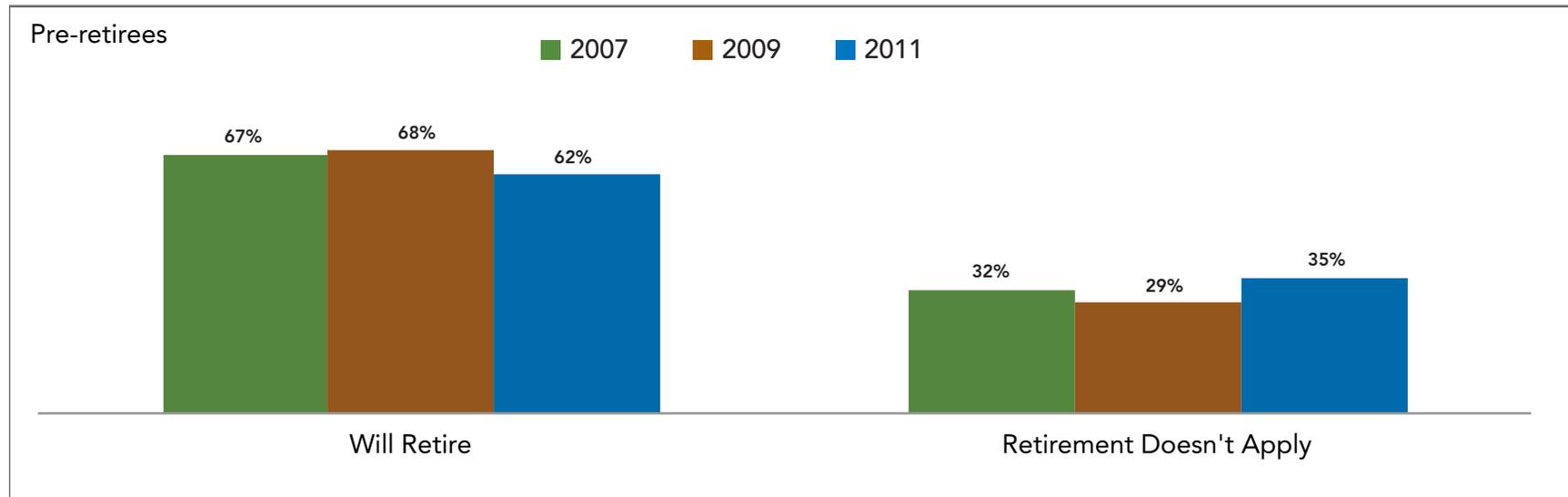
Findings

More than one-third of pre-retirees state that retirement will not apply to them (35 percent, up from 29 percent in 2009 but equivalent to the 32 percent measured in 2007). Those who do not expect to retire say it is because they are financially unable to retire (45 percent), choose to continue working (21 percent), are not employed (10 percent), or retirement is a long way off (10 percent).

Discussion

In the coming years, many people are likely to find they need to continue working in order to prevent a major decline in living standards. A significant percentage of respondents say they do not expect to retire. This may be wishful thinking as about four in 10 people end up retiring earlier than planned and often not by choice. Not expecting to retire may be a rationale for not saving and preparing. This is very risky, since many people find that health, job or family circumstances may make continued work impossible.

Do you think there will come a time when you begin to think of yourself as retired, or doesn't retirement really apply to your situation?



Source: Society of Actuaries, 2007–2011 Risks and Process of Retirement Surveys

The retirement age for those currently retired is considerably younger than that at which pre-retirees say they expect to retire.

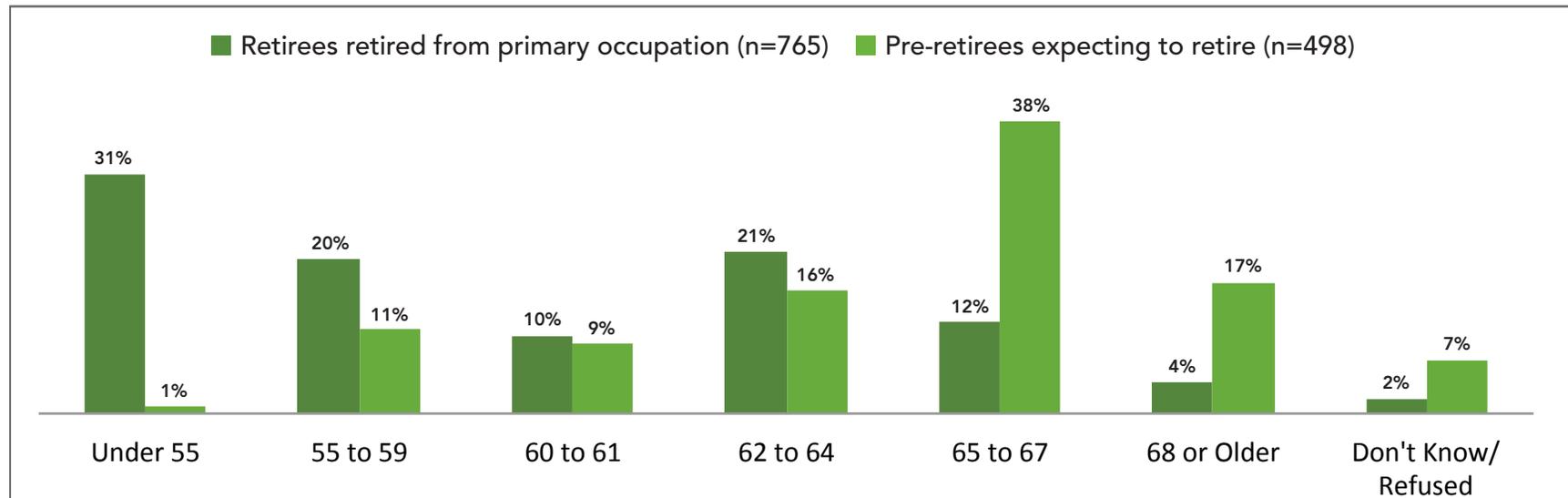
Findings

Those pre-retirees who eventually expect to retire think they will work longer than current retirees actually did. While half of retirees report they retired before age 60 (51 percent), just one in 10 pre-retirees thinks they will retire that early (12 percent). Instead, half of pre-retirees expecting to retire say they will wait at least until age 65 to do so.

Discussion

There is a big gap in the age at which pre-retirees expect to retire and actual retirement ages of those who have retired from their primary occupation. This has been true for the last few surveys, and may be partially due to involuntary retirement and health problems. This persistent gap, together with the failure of many people to plan for a long enough retirement period, may indicate significant future financial problems for many. The data should be considered together with perceptions about the impact of working longer.

(Retirees) How old were you when you retired or began to retire from your primary occupation?
(Pre-retirees) At what age do you expect to retire from your primary occupation?



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Retirees and pre-retirees offer different reasons for the timing of their retirement.

Findings

While retirees tend to say they retired when they did because of health problems or disability (27 percent), because they met their age or years of service requirement (19 percent), or because that is when they stopped working completely (17 percent), pre-retirees are more likely to give a reason related to finances. They say they are planning to retire at the age they indicate because that is when they will have enough money to stop working (24 percent) or start receiving a pension or Social Security (20 percent).

Discussion

These data reinforce the difference between drivers of retirement decisions among those retired and expectations among pre-retirees. It is interesting that family issues such as caregiving and retirement of spouse were not among the top considerations.

The population includes people with very different attitudes—those who expect and want to retire as soon as they have enough money, compared to those who want to continue working as long as they can. However, today some of those people who do retire from a primary occupation will start a new career in retirement.

What event or situation occurred/will occur at that age that leads you to say you retired/will retire at that age? What else? (Top mentions)

	Retirees (n=746)	Pre-retirees (n=466)
Health problems/disabled	27%	4%
Met age/years of service requirement	19%	19%
Stopped working completely	17%	18%
Started receiving pension/Social Security	9%	20%
Got tired of working/had enough	9%	9%
Had enough money to stop working	8%	24%

Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Pre-retirees expect to continue working in retirement.

Findings

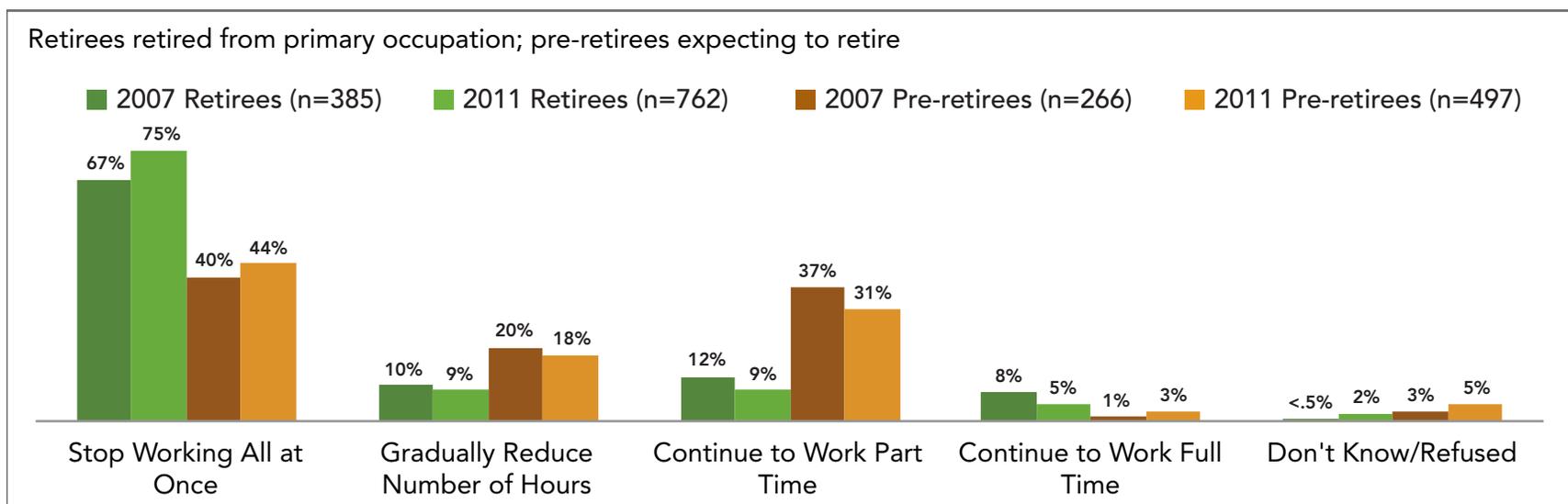
Pre-retirees who expect to retire plan to continue working for pay in retirement. Two in 10 (18 percent) plan to gradually reduce the number of hours before stopping completely; three in 10 (31 percent) say they will continue to work full time; and a very small percentage (3 percent) plan to work for pay full time in retirement.

Since 2007, there has been a slight increase in the percentage of retirees who are retiring from their primary occupation by stopping work all at once. However, one-third of those stopping work all at once (34 percent) report they eventually returned to paid employment.

Discussion

It is not known whether the increase in the number of those retiring all at once and the reduction in those working part time reflect choices or the job market, or a combination of the two. There were fewer job opportunities and much more unemployment in 2011 than in 2007. It is also likely fewer employers would offer options to retire gradually or work part time either leading up to retirement or after retirement.

Which statement comes closest to describing how you retired/plan to retire from your primary occupation?



Source: Society of Actuaries, 2007 and 2011 Risks and Process of Retirement Surveys

Many work in retirement for financial reasons.

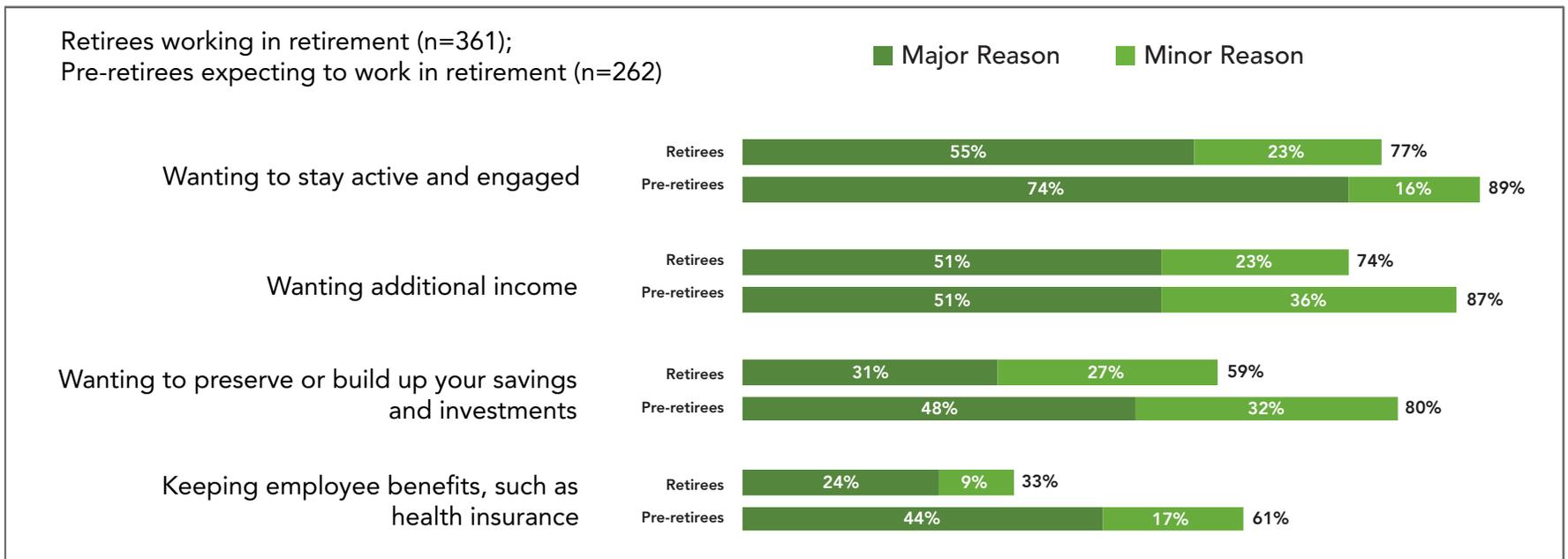
Findings

Although retirees and pre-retirees most often say wanting to stay active and engaged is a reason they work in retirement (77 percent of retirees working in retirement and 89 percent of pre-retirees planning to work), financial concerns also play a very important role. Many say wanting additional income (74 percent of retirees and 87 percent of pre-retirees) and wanting to preserve or build up assets (59 percent and 80 percent) are also reasons for working. Moreover, six in 10 of pre-retirees who plan to work (61 percent) say they want to keep employee benefits.

Discussion

For individuals who choose to work in retirement, there may be multiple reasons for doing so. Other research on retirement shows that people who are “engaged and active” are happier than those with fewer activities.

Is this a major reason, a minor reason, or not a reason why you decided to/think you will work for pay in retirement?



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Retirees working in retirement generally switch employers.

Findings

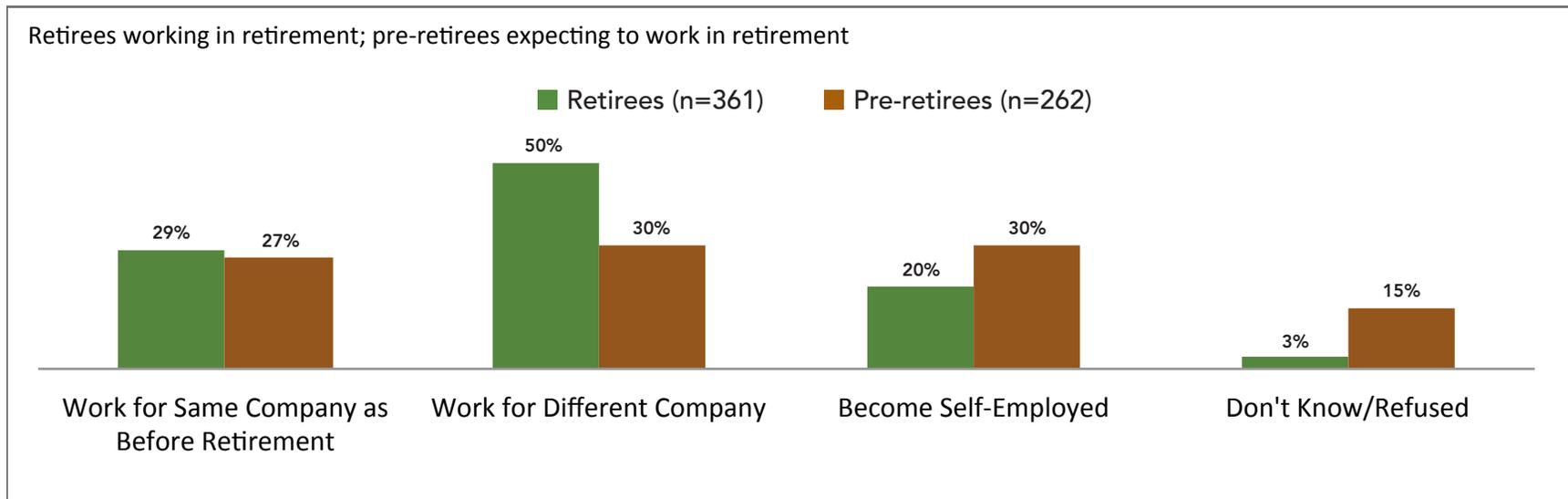
Most often, retirees who work in retirement find employment with a company other than the one that employed them pre-retirement (50 percent). However, three in 10 report working for the same company as before retirement (29 percent) and two in 10 say they became self-employed (20 percent).

Pre-retirees are evenly divided about who they are likely to work for in retirement.

Discussion

The percentage of retirees working for a different company has increased from 40 percent in 2005 to 50 percent in 2011. While some retirees build on existing skills and relationships, others find entirely new paths. The greatest factor in this choice may be where opportunities are available. Some focus on meeting their dreams while others are working mainly to make ends meet. Finding new work in the current economy is difficult for many people, and for older workers it may present a major challenge.

(Retirees) When you worked in retirement, which statement comes closest to describing what you actually did?
(Pre-retirees) After you retire, do you think you will...? (Multiple responses accepted)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Four in 10 use different skills when working in retirement.

Findings

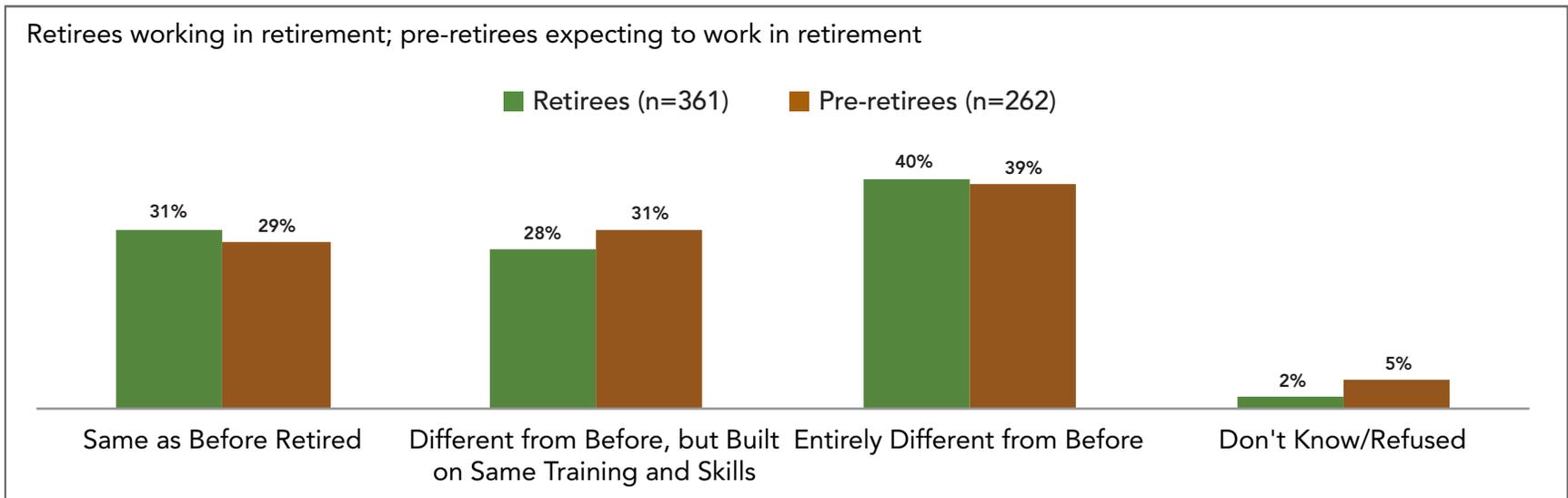
In general, retirees and pre-retirees rely on their pre-retirement training and skills when working in retirement. However, four in 10 retirees (40 percent) say they used entirely different skills in their post-retirement employment, and a similar proportion of pre-retirees (39 percent) also plan to rely on other skills.

Discussion

Individuals phasing into retirement make a range of choices with regard to what type of work they do and for whom they do it. We do not know to what extent the choice is made because of what they want to do versus the work they were able to find.

(Retirees) Was the work you did for pay in retirement...?

(Pre-retirees) Do you think the work you do for pay in retirement will be...? (Multiple responses accepted)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Some started a small business in retirement.

Findings

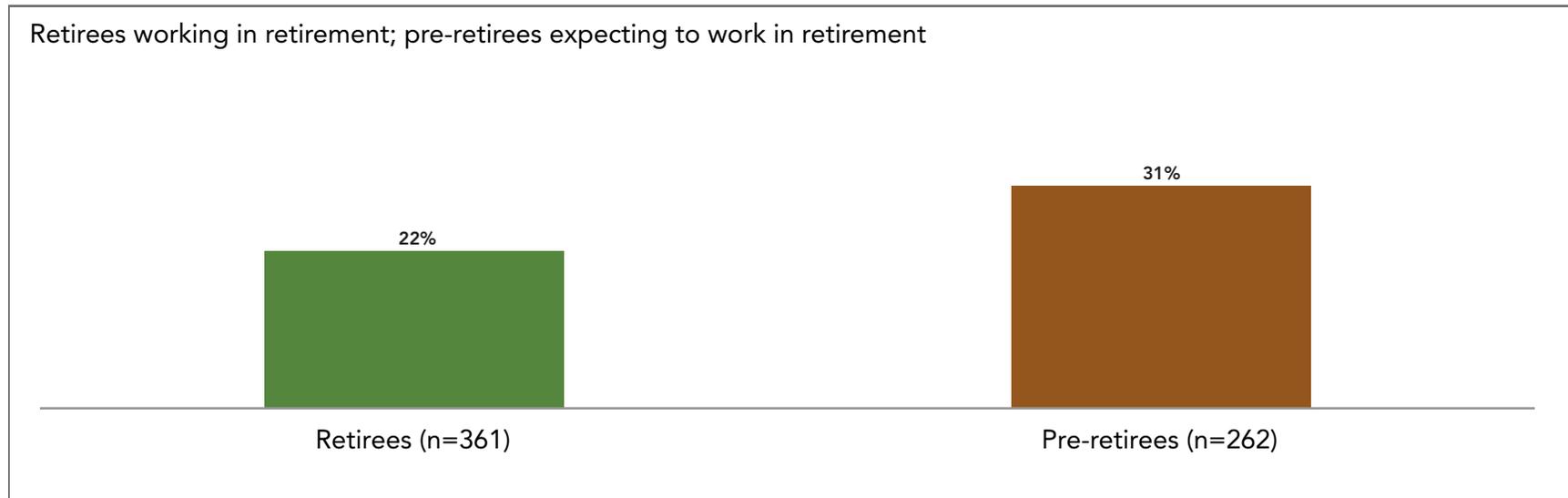
Two in 10 retirees working in retirement (22 percent) indicate they started a small business or became self-employed when they retired. Similarly, three in 10 pre-retirees who plan to retire (31 percent) say they will start a small business.

In general, these retirees used and pre-retirees plan to use less than 5 percent of their savings and investments to finance their business (67 percent of retirees and 54 percent of pre-retirees). However, one in 10 used or planned to use 40 percent or more of their assets (9 percent and 12 percent).

Discussion

Starting a small business can be a great opportunity, but the vast majority of small businesses fail from an economic perspective. It is generally much more difficult to start a small business than people realize. Retirement can be a good time to try something new, but this may be a very risky strategy if assets needed for retirement security are used to invest in or support the business. This question was asked to see to what extent starting a small business may be a risk to retirement security. It appears that in most cases it is not, but in a few, it may be, especially when substantial retirement assets are committed.

Did you/Do you plan to start a small business or become self-employed when you retired/retire? Percentage saying yes



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Retirees most frequently cut back on hours due to health problems or disability.

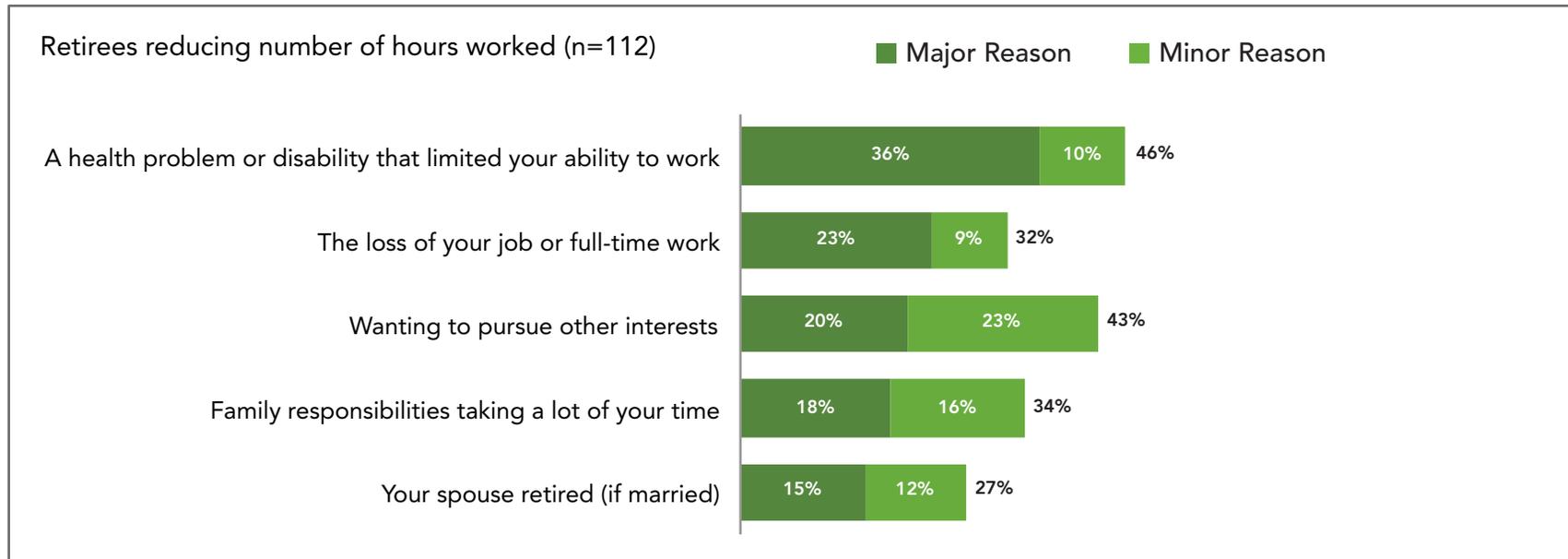
Findings

Retirees who have reduced the number of hours they work but are still working most frequently say that a major reason for the cutback is a health problem or disability (36 percent). Roughly two in 10 report reasons for the reduced hours are the loss of their job or full-time work (23 percent), wanting to pursue other interests (20 percent) and family responsibilities (18 percent).

Discussion

In the last few years, there has been increased recognition of the importance of working in retirement and awareness that many are working and others wish to. The responses to this question provide insights into the reasons for reductions in work schedules among those who are continuing work in retirement.

Is this a major reason, a minor reason, or not a reason why you reduced the number of hours you work?



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Many do not appear to understand the financial benefits of delaying retirement.

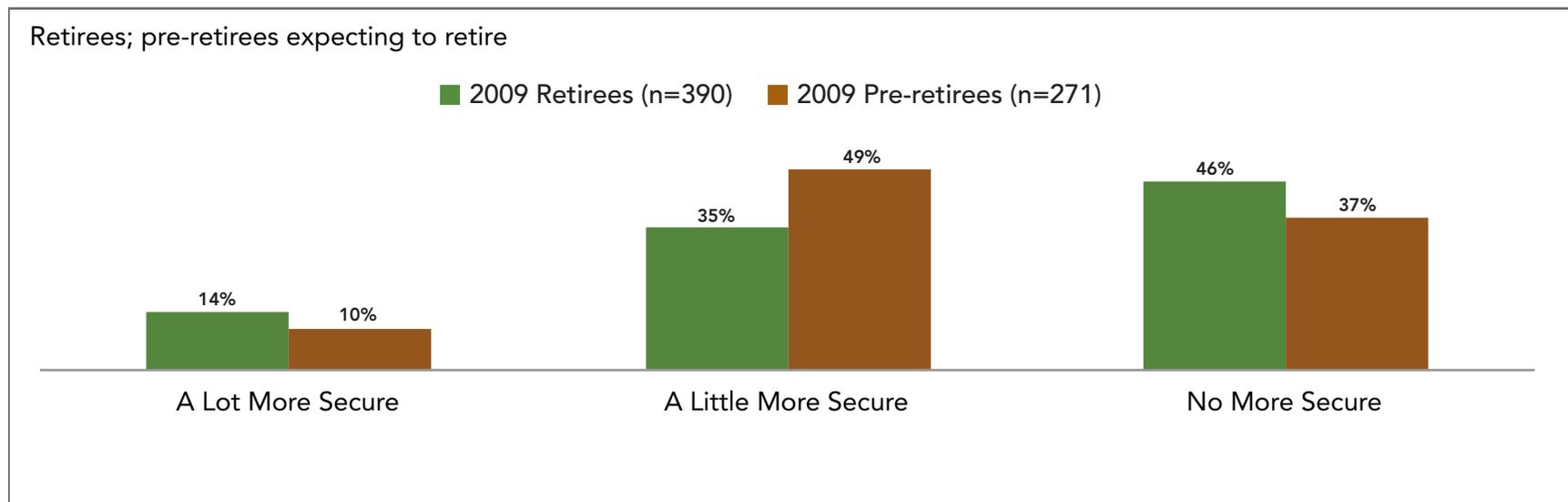
Findings

In the 2009 survey, pre-retirees were more likely than retirees to feel a three-year delay in retirement would make their retirement finances a lot more or a little more secure (59 percent vs. 49 percent). Almost half of retirees thought a delayed retirement would make them no more secure (46 percent), while fewer than four in 10 pre-retirees felt the same (37 percent).

Discussion

Delaying retirement is an important strategy for those who do not have enough resources. However, many people do not seem to fully understand the economic impact of delaying retirement. Factors affecting improved status include more pay while working, more years of benefits, fewer years to deplete retirement resources, increases in Social Security and retirement benefits, and growth of investments and savings. This question was asked in 2007 with similar results.

Suppose you retired three years later than you did/plan. Do you think this would make your retirement financially...?



Source: Society of Actuaries, 2009 Risks and Process of Retirement Survey

Respondents see continued employer-provided health coverage as the primary advantage to delaying retirement.

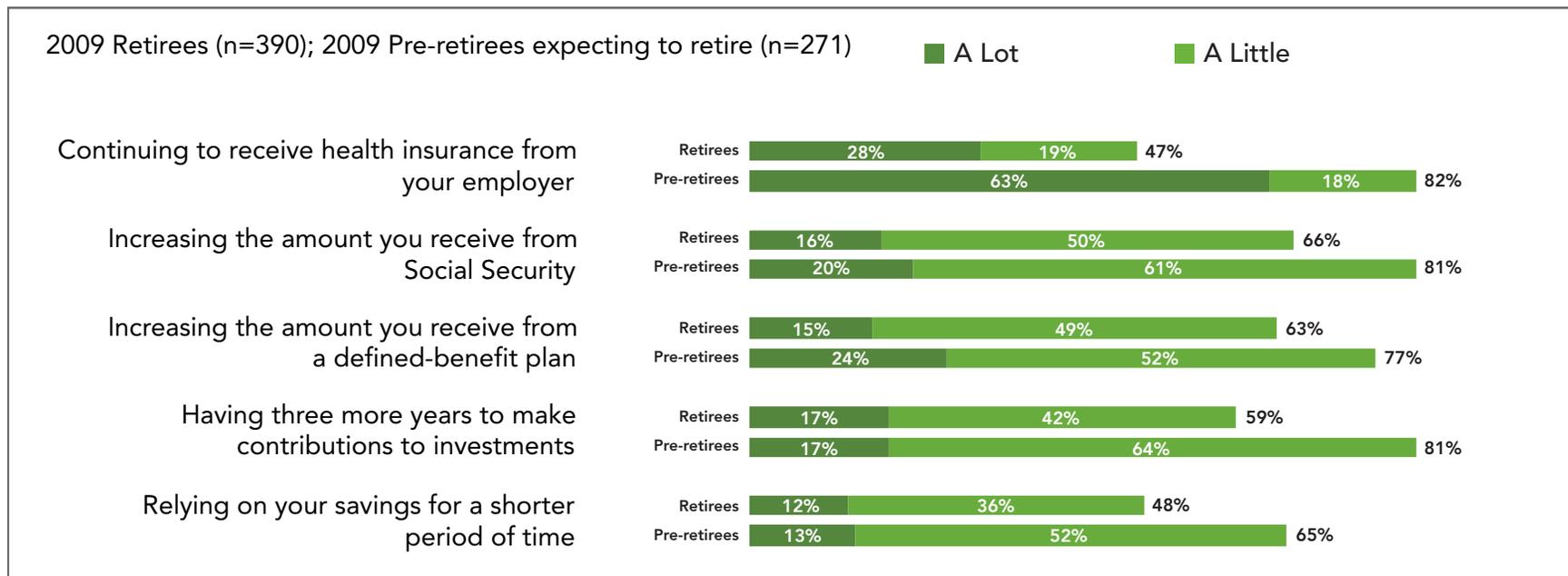
Findings

In the 2009 survey, pre-retirees were more likely than retirees to think the five factors examined below would increase their retirement security. In particular, almost two-thirds said continuing to receive health insurance from their employer would increase their financial security a lot (63 percent vs. 28 percent of retirees).

Discussion

While all five factors in the table below can improve security in retirement, the greatest focus is on employer-provided health insurance. For middle- and lower-income individuals without significant financial assets or DB pensions, Social Security claiming age is also particularly important. This is an area for greater education and planning support. This question was asked in 2007 with mostly similar results.

If you (had) retired three years later, how much, if at all, would each of the following have increased/increase your financial security in retirement?



Source: Society of Actuaries, 2009 Risks and Process of Retirement Survey

Perspectives from the Project Oversight Group Members

AS NOTED IN THE GENERAL PERSPECTIVE, this report concludes with separate observations from members of the Project Oversight Group (POG) for this series of reports. Some of their views on working in retirement come from personal experience and are offered here for readers who may be planning their own retirement. In addition

to the unique perspectives, these views echo a number of themes emphasized throughout this report. They are, nevertheless, the personal opinions of these six authors and not necessarily those of the POG nor the SOA as a whole.

Perspectives of the Project Oversight Group

OVERVIEW OF TRENDS, BY TOM TOALE ET AL.

Social and economic changes have occurred since World War II that are affecting the retirement income security of baby boomers in many ways. Major changes have occurred in the past few decades in employer-provided pension plans, most significantly a shift from DB plans, where the main responsibilities rest with the employer, toward DC plans, where employees are responsible for their economic security in retirement.^[1] This is, in effect, a shift from the traditional pension income pillar to the personal savings income pillar. DB plans, usually funded by the employer, typically provide lifetime retirement benefits based on a formula involving final or average salary, age, and years of service. In contrast, DC plans are essentially savings accounts where employer and employee contributions paid into the plan for each employee's account are invested as the employee directs and retirement benefits depend on the account balance at retirement. In addition, the age for full retired worker benefits from Social Security gradually increased for those born after 1937 from age 65 to age 67. The shift from DB to DC retirement plans and the delayed retirement benefits from Social Security are leading many employees to defer retirement and continue working in what would have been the beginning of their retirement years.

For many older Americans, retirement is not a one-time, permanent event, but rather a process. Recent data from the Health and Retirement Study (HRS) show that approximately 15 percent of older Americans with career jobs returned to the labor force after having retired.^[2] Survey respondents were more likely to re-enter the workforce if they were younger or in better health, or had a DC pension plan.

The impact of the economic conditions of the last few years on retirement savings and of high unemployment rates on this emerging retirement scenario pose serious challenges to workers and retirees, and raise some concerns in areas such as:

- Alternatives to traditional retirement: phased retirement, independent consulting, alternative careers and volunteering.
- Ability or willingness to work in retirement: reason for leaving full-time position such as health, downsizing, boredom, "portability" of skills, education, wealth and age.
- Reasons why people are working in retirement: desire to "stay involved," need to make up for investment losses, loss of DB plan, preference for a less structured work environment, and freedom to focus on areas of greatest interest.

Likewise, there are concerns for employers, including how to address "knowledge drain" issues, create new human resources management approaches, and encourage the acceptance of these trends.

¹ Munnell, Alicia H. and Annika Sundén, *Coming Up Short: The Challenge of 401(k) Plans*, Brookings Institution, 2004.

² Cahill, Kevin, Michael Giandrea and Joseph Quinn, "Reentering the Labor Force after Retirement," *Monthly Labor Review*, 2011.

Perspectives of the Project Oversight Group (continued)

INDIVIDUAL EXPECTATIONS, KNOWLEDGE, INCENTIVES AND REALITIES FOR WORKING AFTER RETIREMENT, BY CAROL BOGOSIAN & CINDY LEVERING

Current trends in retirement indicate people may need to work longer than they originally planned. Individuals planning for or entering retirement usually have certain expectations about what this new phase of their life will be like. They also have general or specific knowledge they can leverage. Incentives for working after retirement may be tangible or non-tangible. Finally, expectations and realities don't always match up. The following discussion presents some individual considerations for retirees and pre-retirees considering working in retirement.

Expectations—Visualizing Your Retirement

It is important to set realistic expectations concerning the desired time to devote to work, what type of work would be rewarding, current capabilities to perform the work, and where to work, such as moving to a warmer climate or an area with more job opportunities. Also, experts advise spending time planning in advance what to do—in other words, visualize your retirement.

Things to consider include:

- Working in the same career or choosing a new one;
- Working full time or transitioning to part-time work;
- Working as an employee or becoming a contract worker or business owner; and
- Working in one's current location, moving to a new environment, or even working in multiple locations.

Remember to:

- Check your ego at the door—this is your second, perhaps third, chance, not a primary career;
- Accept pay and benefits commensurate with new work experience; and
- Remain flexible to try new things and ideas.

Knowledge

One key to a successful retirement is to continue learning. The need to develop and maintain mental capabilities is no different from what it was in one's main career. Old skills and knowledge can quickly obsolesce. Individuals can control whether their employment worth becomes obsolete along with their skills and knowledge.

Things to consider include:

- Gain new education and experience to keep knowledge up to date—this effort will most likely need to be funded by the individual;
- Expand horizons to knowledge and skills that are more conducive to the aging process;
- Keep abreast of emerging thoughts, products and skills in the chosen field of work; and
- Realistically assess whether it is practicable to continue working in one's chosen field and make adjustments when needed.

Incentives

Working after retirement will be a trade-off between less current free time versus earning money and benefits to extend control over one's life and increase comfort in later retirement years. Several added benefits of working include improved mental health and a chance to do something that was not possible before. This applies to paid employment as well as volunteer work.

Things to consider include:

- Keeping mentally active and socially involved are good for overall health and well-being and improve the quality of retirement years;
- This is a chance to return good to society in ways not possible during a working career;

Perspectives of the Project Oversight Group (continued)

- This is also an opportunity to accomplish goals and interests sacrificed during a working career;
- The transition from full-time to part-time to a non-working lifestyle can be done on one's own terms; and
- Choosing a job with less responsibility may translate into less stress and more enjoyment.

Retirement systems may be sending signals that it is time to retire. "Normal retirement" under most DB plans is typically age 65; Social Security early retirement age is 62, but at considerably reduced benefits. Since retiring before age 65 may be too early for most people, they may consider phased retirement or even a "second career." This is especially true if they don't have enough income to retire completely.

Availability of health insurance at an "active employee" rate for full- or part-time work may be an incentive to look for a job that offers it. Also, if the years-of-service requirement to qualify for retiree medical is low, e.g., five years, that may be another incentive to seek employment.

Realities

Retirement is often portrayed as a time of leisure, travel and relaxation. In order to translate these expectations into positive realities, individuals should be aware of and plan for the following more unpleasant ones:

- The impact of inflation over a long period of time may be underestimated.
- The continued growth of medical costs should be a big concern, especially for those without any kind of health insurance coverage until 65, the age at which Medicare is available.
- The combination of recent investment losses, inadequate savings rates and frozen DB plans has negatively affected retirement income. In addition, people tend to

underestimate the impact that working a few years longer will have on their ultimate retirement income.

- Reductions in home equity have made it difficult to sell and move to a lower-cost area with more job opportunities or to set up a reverse mortgage. In addition, proceeds from a house sale may be lower than desired if it occurs while prices are depressed.
- Care of family members, including children and parents, may take a heavy toll both financially and emotionally, and can also be time-consuming, making it difficult or impossible to work.
- Meaningful work may be difficult to find. Employers may be reluctant to keep older workers whom they perceive to be more expensive or less productive. Almost 60 percent of unemployed people ages 55 to 64 have been jobless for more than six months compared to 40 percent ages 25 to 34. In addition, it may be difficult to start a new business in the current economic climate.
- Individuals often have a difficult time managing the income payout phase that involves estimating how long they can expect to live, how much they will earn on their investments, and how much they can spend each year to avoid running out of money. Surveys have shown that most people are just guessing about how much money they will need in retirement. In addition, with current low interest rates, there are few places to invest "safely" without losing purchasing power.
- The decline in health and mental acuity may present a significant challenge. Long-term care and assisted living care are very expensive, and the market for them is not very robust.
- While any future legislative changes to reduce the federal deficit are unknown at this time, government benefits (Social Security, Medicare and Medicaid) are certainly at risk. Changes in taxation may also negatively impact the net retirement income for segments of retirees.

Perspectives of the Project Oversight Group (continued)

BARRIERS TO WORKING IN RETIREMENT, BY BARBARA BUTRICA

There is no question that delaying retirement improves older adults' prospects for an economically secure and healthy retirement. People who work longer earn more income, usually save some of that income, and have to finance fewer years of retirement.^[1] Besides its economic benefits, research studies find that working longer reduces morbidity and improves health.^[2]

Older Americans are healthier and less likely to work in physically demanding jobs than ever before in this country's history. It would seem then that the majority of older adults could delay retirement. However, there are barriers at the individual, employer and institutional level to delaying retirement and working at older ages.

Although today's adults are healthier than their parents and grandparents were at the same ages, as they grow older their chances of experiencing an adverse health event increase. Johnson, Mermin and Uccello found that 57 percent of adults ages 51 to 61 experienced new health problems over that 10-year age range.^[3] As a result, their own health will be a barrier for some older adults who would like to work. In addition, older adults may feel ill-equipped to work in the kinds of jobs that dominate our technology-based economy. Training and workforce development programs could help older adults overcome these barriers by training them for new jobs that are less physically demanding and updating their skills to keep them marketable.

Employment at older ages, however, depends not only on the willingness and ability of older adults to work but also on employers' willingness to hire and retain them. In surveys, employers usually say they value older workers' experience, maturity and work ethic, but often express concern about their relatively high salaries and benefit costs.^[4] One-quarter of employers in a 2006 survey said they were reluctant to hire older workers.^[5] Furthermore, some employers appear to discriminate against older workers.^{[6], [7], [8]} For companies happy to employ older workers, studies have shown that employers can reduce the barriers to working at older ages by offering phased retirement opportunities and reduced and flexible hours.^{[9], [10]}

Besides individual and employer barriers to work, there are institutional barriers such as those created by our Social Security and pension systems. The Social Security program's early

entitlement age (EEA) and full retirement age (FRA) appear to signal workers to retire at those precise ages. DB pension plans may not allow workers to draw down a partial pension to supplement reduced, part-time earnings. Congress considered a change in this pension rule, but the old rule remains in place. Also, employers offering health insurance must be the first payer for all workers, including those with Medicare coverage. This increases plan costs since older workers represent a greater health risk. Accounting for these and other work disincentives at older ages, Butrica and co-authors estimate that the implicit tax on work rises from 14 percent at 55 to nearly 50 percent at age 70 for a typical man.^[11]

ENDNOTE:

- 1 Butrica, B.A., K.E. Smith and E. Steuerle, "Working for a Good Retirement," in D. B. Papadimitriou (ed.), *Government Spending on the Elderly*, pp. 141–174, New York: Palgrave Macmillan, 2007.
- 2 Calvo, E., *Does Working Longer Make People Healthier and Happier?* Work Opportunities for Older Americans, Series 2, Chestnut Hill, Mass.: Center for Retirement Research at Boston College, 2006.
- 3 Johnson, R.W., G.B.T. Mermin and C.E. Uccello, *When the Nest Egg Cracks: Financial Consequences of Health Problems, Marital Status Changes, and Job Layoffs at Older Ages*, Washington, D.C.: The Urban Institute, 2006.
- 4 Mermin, G.B.T., R.W. Johnson and E.J. Toder, *Will Employers Want Aging Boomers?* The Retirement Policy Program Discussion Paper No. 08-04. Washington, D.C.: The Urban Institute, 2008.
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Perspectives of the Project Oversight Group (continued)

WORKING IN RETIREMENT—ANOTHER APPROACH, BY MIKE COWELL

An oxymoron, it may be observed. How can one be retired while still working? The caption alone conjures up a variety of images. For some, it connotes a failure of our retirement systems, pathetic images of elderly people bagging groceries in the local supermarket to eke out meager Social Security benefits. This stereotype is, unfortunately, borne out in part by statistics, which show more than four in 10 who work past “normal” retirement age doing so out of financial necessity. For others, it might mean successful entrepreneurs or professionals so engrossed in their work they can’t let it go, again documented by statistics, with one-in-10 working seniors insisting they’ll die in the saddle. Or it might include those in transition from working for a corporation or for someone else with the intent of moving eventually to some form of self-employment.

But for seniors fortunate enough to have an adequate retirement income and who have managed to tear themselves away from a nine-to-five routine, it can mean giving time on a volunteer basis to groups to which you’ve intended during your “real” working years to contribute more, or finding additional time for an educational, professional or charitable organization that you feel can benefit from your extra efforts and lifetime experience.

Actuaries now measure remaining life expectancy at retirement age with remarkable precision, even to the extent of allocating it among years of fully functioning capability, followed by a period of reduced “activities of daily living” where more assistance is needed, to the final years where extensive support is needed even for the most basic functions. In the vernacular, these stages are sometimes referred to as the “go-go” years, the “slow-go” years and the “no-go” years. One recent study shows that about one year in five of remaining life expectancy for males age 65 will be spent in the third stage of chronic disability; for females this final stage will account for almost a third of their life expectancy at 65.¹¹ The goal for most retirees is to extend their “go-go” years of retirement for as long as possible and to hold that last stage down to a bare minimum.

Research shows that keeping active in both mind and body does indeed make a difference. It is true that, as we age, statistical variations in life expectancy become more dependent on genetics, with perhaps as much as half our chances of living to a ripe old age being inherited from our grandparents. But that still leaves plenty of variation over which we, through choice of lifestyle, have control to maintain, even improve, our quality of life in retirement. And in spite of the popular images of healthy, active seniors out on the golf course, or on their yachts, most of us soon discover that you can only spend so much time sailing, driving golf balls, or cruising the Seven Seas.

However, returning to paid employment isn’t an option for most retirees, so offering one’s services for free becomes, perhaps, the next best thing for staying physically healthy and mentally involved. While the unemployment rate among the population seeking to get paid is, unfortunately, still above 8 percent, it’s a fair bet that among those willing to work for free, for which such statistics aren’t kept, it would be closer to zero. Almost anyone wanting to do volunteer work can find a job.

Lastly, for the paid employment experienced most of your working life, either you were the boss, constantly having to satisfy customers, or you had to satisfy the boss. Volunteer work is quite different. Most “employers” of volunteers are so happy to have them that they allow much more leeway in how they get the job done. You find more opportunities to “do your thing” to be more authentic than when you had to satisfy the boss for a paycheck. So, if you don’t need to work to supplement your retirement income, give thought to some form of volunteer activity. It may or may not add years to your life, but it’s almost guaranteed to add life to your retirement years.

ENDNOTE:

¹ Stallard, Eric, “Estimates of the Incidence, Prevalence, Duration, Intensity and Cost of Chronic Disability among the U.S. Elderly,” *North American Actuarial Journal*, Vol. 15, No. 1, 2011, p. 42, Table 4.

Perspectives of the Project Oversight Group (continued)

IMPORTANCE OF MEDICAL BENEFITS, BY JULIE STICH

As we age, it is normal for our personal medical expenses to increase. According to the Bureau of Labor Statistics' 2010 Consumer Expenditure Survey, a person aged 65 or older spent \$4,843 annually on health care, compared to \$1,800 for a person aged 25 to 34 and \$3,261 for someone between the ages of 45 and 54.^[1] The Centers for Medicare and Medicaid Services found total annual personal health care spending in 2004 (latest available) for seniors aged 65 and over to be \$14,797, compared to \$4,511 for persons between the ages of 19 and 64.^[2]

While Medicare covers Americans over age 65, seniors still face paying medical expenses in retirement—these include premiums for Medicare Part B and any supplemental plans; copayments and coinsurance for medical services; and out-of-pocket costs for prescription drugs, dental and vision care. Fidelity Investments calculated that a 65-year-old couple retiring in 2011 will need \$230,000 to pay medical expenses throughout retirement.^[3] Similarly, the Employee Benefits Research Institute (EBRI) has found that a married couple with median prescription drug expenses would need \$271,000 to have a 90 percent chance of having enough money to cover health care expenses in retirement.^[4] Both studies saw a reduction in estimated expenses from earlier studies due to changes made to the Medicare Part D program as a result of the 2010 Patient Protection and Affordable Care Act. Fidelity, however, sees this reduction as a one-time adjustment and predicts future annual increases in medical expenses. Likewise, EBRI predicts future increases for Medicare Part B premiums and health care services to counteract Medicare Part A funding shortfalls. In short, retirees face substantial costs for medical care in retirement that they should factor into their financial plans.

As increasing numbers of baby boomers approach retirement, fewer employers are offering post-retirement health care benefits. Among large employers surveyed by Mercer, the percentage offering new hires pre-Medicare-eligible retiree health coverage

dropped from 46 percent in 1993 to 25 percent in 2010. Employers offering Medicare-eligible retiree health coverage to new hires decreased from 40 percent to 19 percent.^[5] Surveys by the National Business Group on Health and PricewaterhouseCoopers found similar low coverage percentages.^[6]

A recent survey by Towers Watson and the International Society of Certified Employee Benefit Specialists found that almost 60 percent of responding employers are rethinking their role in providing retiree medical coverage or plan to do so in the next two years. Actions being considered are capping subsidies for pre-65 coverage and switching from Medicare supplement plans to insured Medigap plans for retirees over age 65.^[7]

As seniors experience rising health care costs and fewer options for subsidized insurance, many are faced with delaying retirement so that they can continue receiving employer-provided health care benefits as active employees. This coverage is typically more generous than the coverage provided through Medicare, and is considered primary to Medicare for the “working aged.”^[8] Pre- and post-age-65 retirees may need to return to work to again receive employer-provided health benefits or to earn enough money to pay for their own coverage and out-of-pocket expenses.

ENDNOTE:

- ¹ Health care expenditures include those for health insurance, medical services, prescription drugs and medical supplies. Bureau of Labor Statistics, Consumer Expenditure Survey, Table 3 Age of Reference Person, 2010, www.bls.gov/cex/2010/standard/age.pdf
- ² Total personal health care spending includes the costs for hospital, physician, clinical, dental and other professional services; prescription drugs; home health and nursing home care; and durable and non-durable medical equipment and products. Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, Total Personal Health Care Spending, By Age Group, www.cms.gov/NationalHealthExpendData/downloads/2004-age-tables.pdf

Perspectives of the Project Oversight Group (concluded)

³ Medical expense calculation does not include expenses for nursing home care. Fidelity Investments, “Fidelity Investments Estimates Health Care Costs for Couples Retiring in 2011 Will Drop to \$230K in One-Time Reduction,” March 31, 2011, www.fidelity.com/inside-fidelity/individual-investing/2011-rhccce

⁴ In this calculation, the married couple would not have access to employer-provided post-retirement health benefits; the \$271,000 would be needed to pay Medigap, Medicare Parts B and D premiums, and out-of-pocket prescription drug expenses. Nursing home expenses are not factored in. Employee Benefit Research Institute, *Funding Savings Needed for Health Expenses for Persons Eligible for Medicare*, EBRI Issue Brief, December 2010, www.ebri.org/pdf/briefspdf/EBRI_IB_12-2010_No351_Savings3.pdf

⁵ Large employers are defined as having 500 or more employees. Mercer, National Survey of Employer-Sponsored Health Plans 2010 Survey Report, Figure 45, page 45.

⁶ National Business Group on Health, “Large Employers’ 2012 Health Plan Design Changes,” August 2011, capsules.kaiserhealthnews.org/wp-content/uploads/2011/08/2012-NBGH-Plan-Design-Survey-Report-Embargoed-Edition.pdf and PricewaterhouseCoopers, Health and Well-Being Touchstone Survey Results, May 2011, www.pwc.com/en_US/us/hr-management/assets/PWC_2011_Health_and_Wellbeing_Touchstone_Survey_Results.pdf

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⁸ Under the Medicare Secondary Payer rules, employer-sponsored group health plans covering 20 or more employees are considered the primary payer for actively working employees over age 65 (often called the “working aged”); Medicare is the secondary payer. Employers are prohibited from incenting employees to choose Medicare as their primary payer; this includes offering, subsidizing or being involved in the arrangement of a Medicare supplement policy. Centers for Medicare and Medicaid Services (CMS), Medicare Second Payer and You, www.cms.gov/MedicareSecondPayerandYou/01_overview.asp; Congressional Research Service, Medicare Secondary Payer—Coordination of Benefits, RL33587, July 10, 2008, http://assets.opencrs.com/rpts/RL33587_20080710.pdf; and CMS, “Medicare and Other Health Benefits: Your Guide to Who Pays First,” April 2011, www.medicare.gov/Publications/Pubs/pdf/02179.pdf

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TO OBTAIN A COPY OF THE COMPLETE SURVEY REPORT

The 2011 Risks and Process of Retirement Survey report may be obtained from the website of the Society of Actuaries at www.soa.org.

NOTES:



Retirement