



Financial Shocks, Unexpected Expenses and Financial Experiences of Older Americans

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Abstract

The older age population is growing and will grow further as a result of longer life spans and fertility patterns. Retirement ages are not routinely adjusted to match changing life spans, and retirement plans have shifted from defined benefit to defined contribution. Many of today's retirees have defined-benefit pensions, but fewer will have pensions in the future, and many people are not saving enough in defined-contribution plans to provide equivalent retirement resources. There is a growing awareness of gaps in financial literacy. All of this contributes to a growing concern about how well Americans will do in old age, and about the adequacy of their retirement security. These challenges may grow even more severe over time, depending on how Social Security is adjusted in light of that program's projected longer-term financial imbalance. The Society of Actuaries' Committee on Post-Retirement Needs and Risks (CPRNR) has been working for nearly 20 years to identify and understand the way Americans manage their finances post-retirement. This work includes eight biennial surveys of the public's knowledge and perceptions about post-retirement risk management. A major finding from this work is that planning often tends to be short term and cash flow focused, and that many people do not focus on risk or plan for shocks.

In 2015, the Society of Actuaries' retirement risk research consisted of three components: the Survey of Post-Retirement Risk and the Process of Retirement (surveying U.S. pre-retirees and retirees), focus groups looking at experiences of U.S. and Canadian individuals who had been retired 15 years or more and were resource constrained, and in-depth interviews with caregivers of people who need substantial care and would have generally fit into the focus group population.

The SOA also worked with the Social Security Administration and the University of Southern California as partners on a survey of the financial experiences of Americans. This study used an Internet panel, the Understanding Americans Survey (UAS). This survey complements the risk survey and also includes a section on financial shocks, although they are identified somewhat differently. This 2015 survey updates the 2013 Older Americans Study that looked at the financial behaviors of older Americans.

This paper synthesizes the work on shocks from these studies and additional research in order to understand more about the financial experiences of older Americans. It offers perspectives on financial management and planning for middle market segment Americans. It offers some suggestions for further research and responses to the findings.