Financial Shocks, Unexpected Expenses and Financial Experiences of Older Americans

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Presented at the Living to 100 Symposium
Orlando, Fla.
January 4–6, 2017

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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.

Setting the Stage

Introduction

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This paper synthesizes the work on shocks from these studies and brings in additional research in order to understand more about the financial experiences of older Americans. It also includes highlights of modeling of retirement adequacy that focuses on shocks and the individual. It brings in some cumulative findings from SOA research and offers perspectives on financial management and planning for middle market segment Americans. It offers some suggestions for further research and responses to the findings.

Research Overview

Several studies sponsored or cosponsored by the Society of Actuaries provide insights into financial shocks, unexpected expenses and the finances of older Americans. The Society of Actuaries has conducted research for nearly 20 years to help understand how retired Americans and those people approaching retirement prioritize and manage post-retirement risks. The insights offered here reflect the work over time, as well as the most recent research, and bring together this research with other findings.

The most recent Society of Actuaries' post-retirement risk research, released in January 2016, offers insights into spending, debt and financial shocks experienced by older Americans, as well as how they perceive and manage financial risks. Financial shocks were a major focus of this work.

The 2015 Survey of Post-Retirement Risks and the Process of Retirement was preceded by focus groups in both the United States and Canada. These were conducted with retirees who had been retired for 15 years or more. In-depth interviews were done with caregivers of retirees currently needing long-term care and who had been retired 15 years or more. The focus groups were designed to understand how retirees were doing and how much they had been affected by shocks. The 2015 research also included questions about what people had learned from their parent's experiences. The 2015 survey is the eighth biannual survey.

In addition to the risk surveys, the Society of Actuaries has partnered with the Social Security Administration to support research conducted by the Center for Economic and Social Research at the University of Southern California. This work complements the risk survey and provides additional findings. The 2015 new Understanding Americans Survey study, "How Americans Manage Their Finances," provides insights into financial management at all ages, including the use of financial products, debt, financial stresses and planning for the future by age group.

The Society of Actuaries also sponsored a series of studies focusing on understanding benefit adequacy. There are three studies in this series, described in the SOA reports titled *Measures of Benefit Adequacy*, *Improving Retirement Outcomes*, and *Challenges and Strategies for Financing an Increasingly Long Life*. These studies provide background information on the topic and then use simulation modeling to estimate what asset level is needed for an expected successful retirement. They are unusual because the stochastic modeling includes mortality, health and long-term care risks as well as economic issues.

Accessing the Research

The full reports from the survey and the focus groups are available from the Society of Actuaries' website. Survey results include all questions and breakouts by income, health status and other groupings. A 2016 special-topic report on shocks, *2015 Retirement Risk Survey: Key Findings and Issues–Shocks and Unexpected Expense in Retirement*, synthesizes the findings and added research on these two topics. These studies can be downloaded from the Committee on Post-Retirement Needs and Risks web page, https://www.soa.org/research/topics/research-post-retirement-needs-and-risks/#risksurvey

Leandro Carvalho, Arie Kapteyn and Htay-Way Saw, "How Americans Manage Their Finances," working paper 2015-020, CESR-Schaeffer Working Paper Series, University of Southern California, is available at http://static.usc.edu/documents/2015-020.pdf.

The three studies on retirement adequacy by Bajtelsmit, Rappaport and others can be found in the Pension Section research section of the SOA website. The link for the third study report, *Challenges and Strategies for Financing an Increasingly Long Life*, is https://www.soa.org/Research/Research-Projects/Pension/2015-challenges-strategies-financing-increasingly-long-life.aspx.

The focus groups will be discussed first, followed by a broader discussion of the insights provided by the survey research and other research. Overall, the insights provided by these research studies are helpful in understanding the impact of shocks on retirees, as well as what retirees and those nearing retirement know and do not know, and how people plan.

Research Results

Research on Longer-Term Retirees: The 2015 Focus Groups and Interviews

The 2015 focus groups and interviews offer perspectives on longer-term retirees. This research asked people how they have done, as well as focused on their perspectives about risk and plans. The descriptions and comments about shocks also helped in structuring the 2015 risk survey.

Context and Background

The 2015 research was structured to respond to issues raised in earlier research. In 2013, the retirement risk research included focus groups with relatively recent retirees who were also resource constrained. The retirees said that holding on to their assets was a priority, and many of them had no plan for spending down assets beyond taking the legally required minimum distributions. Further, many of the retirees focused their planning on relatively short-term cash flows, and some had no plans. Some of the project team carefully considered these results and the group overseeing the research wondered how retirees' choices would work out in the long term. How would shocks affect the retirees?

At the same time, the Society of Actuaries had sponsored research on retirement adequacy that demonstrated that the amount required for a 95 percent chance of financial success in retirement was far greater than the median amount of assets held by retirees (Bajtelsmit et al. 2013). These results were heavily influenced by shocks, particularly major long-term care events, which are infrequent but very costly. This research made it clear that retirement planning that did not consider shocks left the individual very vulnerable to failure.

At the same time, there is debate about whether or not there is a retirement crisis and how well Americans are financially prepared for retirement. Some experts are concerned that many retirees will overspend or make other poor decisions that will lead them to run out of money before the end of their lives.[1] Others feel the situation is much better and that fewer people will get into trouble during retirement. The SOA research adds interesting perspectives to this debate.

The focus group research was conducted with long-term retirees who were in the broad middle range by financial assets: those with investable assets between $50,000 and $350,000. (The study was conducted in both the United States and Canada, and despite the differences in the value of the American and Canadian dollars, the same nominal-value asset ranges were specified for both countries.) The study excluded retirees with under $50,000 of assets and those who have already lived far longer than average. Hence, this research did not provide information on the longer-term ability of very old retirees to adapt and adjust to further financial challenges.[2] However, by interviewing people who have been retired for at least 15 years, the SOA was able to learn how these people are experiencing the financial challenges they face and how they have responded to these experiences. The focus groups were conducted with groups separated by gender and by prior events. There were three groups who had been widowed or divorced since retirement and who had not remarried, and several who had experienced a major health event in their household since retirement. Separating the groups by gender followed the pattern of the 2013 focus groups.

There was concern that the focus groups could not include people needing long-term care and that the group with major capability decline would be unrepresented. The research design was modified to include in-depth interviews with caregivers of people who were receiving long-term care, in order to supplement the focus group results. The interview criteria were designed so that the people being cared for would have similar characteristics as the people in the focus groups.

The focus group and interview results were integrated, and these results assisted in the design of the 2015 post-retirement risk survey, and the results were considered jointly. The risk surveys conducted by the SOA for the last 15 years include people in the United States at all income and asset levels. These biennial surveys are designed to understand the approach pre-retirees and retirees take to post-retirement risk management, financial planning and decision making surrounding retirement and retirement-related issues.

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[1] Note that assets must be spent down before an individual is eligible for Medicaid. Individuals needing long-term care can get care financed by Medicaid if they are eligible based on health condition and Medicaid eligibility conditions.

[2] The CPRNR is conducting further research on longer-term retirees—people age 85 and beyond. An interview and survey study are being executed in 2017.

Discussion of Focus Group and Interview Results

The 2015 focus groups and interviews provide evidence on the thinking of retirees and their caretakers based on careful questioning of long-term retirees themselves: people who have been retired at least 15 years and who have moderate amounts of assets. These findings add to existing knowledge, which has been mostly focused on people who were more recently retired. The focus group participants indicate that they have coped reasonably well with managing their finances during the first decade and a half of retirement. Some had to make cutbacks in their lifestyles; a number state they have gone from satisfying "wants" to satisfying "needs." But those who have made that transition have accomplished it with resilience rather than bitterness. Overall, there are many gaps in knowledge and planning processes, but the retirees seem to be careful about what they spend, and many of them are successful in working things out in a reasonable way.

Some have experienced financial shocks, but many of the shocks have been absorbed and adjusted to well. Retirement clearly has challenges, including declines in health and cognitive capacity, the loss of spouses, and in some cases, social isolation. These are difficult challenges, and for many, the financial challenges are not the most difficult to deal with.

This research did find that some financial shocks cannot be absorbed and adjusted to, including needing long-term care, having a child that cannot support himself or herself, and getting divorced during retirement. There may be other major shocks that are devastating but were not represented in the group. Based on the screening criteria, the group did not include people who had lost all of their money to a scam, and it was relatively unlikely to include people in bankruptcy.

The 2015 groups and in-depth interviews also found participants had done little long-term planning around the time they retired. Nevertheless, the financial consequences of a lack of planning often tend to be manageable, with a few notable and important exceptions. While there is a great deal of concern about the financial impact of an illness or disease in later life, the financial consequences generally seem to be manageable. The exceptions are among those in the United States who need but do not buy a supplemental health insurance policy to supplement Medicare or have substantial care not covered by Medicare.

There are few cases of unexpected expenses that exceed $5,000 in one year. These tend to be dental costs, home repairs (such as the need for a new roof or furnace), support of a grown child who loses a job or is unable to work, and divorce in retirement. In most cases, people pay for these costs out of their accumulated savings. Retirees often try to reduce their spending to make up for such expenses. In other words, they absorb the costs and adjust their lifestyle.

However, retirees are not able to absorb expenses and adjust when challenges arise in three areas: (1) needing long-term care; (2) having an adult child with a mental illness or other condition who is unable to work; and (3) getting divorced in retirement. These situations are much more likely to have a serious long-term impact on the retiree. Interestingly, the death of a spouse who did not need long-term care prior to death did not seem to cause a major drop in asset levels. Widowhood clearly causes a financial strain but not, for those participating in this research, a major drop in assets. As discussed later in this report, these focus group results are not consistent with analysis using the Health and Retirement Study of changes in assets at time of widowhood.

Although most focus group retirees did not experience individual shocks that devastated their finances, there are costs to a lack of planning. Many, particularly those who have experienced multiple financial shocks, have had to make significant cuts in their spending. Many speak of going from buying what they want to buying only what they need and feeling that they do not need much. But while most adjust reasonably well to financial setbacks in retirement, some setbacks cause severe nonfinancial difficulties and even trauma. Often old age brings many challenges. To a significant extent, dealing with the financial side of old age is easier than other aspects, especially declines in health and cognitive functioning.

Quotations from the focus groups provide much more insight into the results and the voice of the retirees. Appendix A presents quotations arranged by topic area.

Findings From Recent Research About the Finances of Americans

Information about the finances of Americans is included in the retirement risk surveys, the How Americans Manage Their Finances study, and the U.S. Government Accountability Office (GAO) analysis of Health and Retirement Survey data.

Overview of 2015 SOA Risk Survey Findings

In the 2015 Society of Actuaries post-retirement risk survey,[3] the findings with regard to risk concerns and risk management are generally consistent with prior years' surveys. Following are some highlights of the survey results:

- The top concerns with regard to post-retirement risks are inflation, health care expenses and paying for long-term care. These top concerns have been found consistently over repeated iterations of the survey, although the priority of concerns changes. This is the eighth biennial survey.

- Pre-retirees continue to be more concerned than retirees about most risks.

- Retirees retired at a median age of 60, substantially earlier than age 65, which is the median age at which pre-retirees say they expect to retire. This finding is repeated in several surveys. Working in retirement is another area where expectations of pre-retirees differ from the actual experience of retirees. While many pre-retirees say they expect to continue working longer, most current retirees have not actually done so.

- There continue to be gaps in planning and the use of shorter planning horizons at retirement than are recommended for comprehensive planning.

- The top risk management strategies being used are similar to what was found in prior surveys, including reductions in spending, increasing savings and paying off debt.

- As in prior years, risk protection products, other than health insurance, are not used very often.

- Retirees and pre-retirees seem to have relatively little concern about some important risks such as fraud.

The 2015 risk survey used a sample that made it possible to split results by income level for both retirees and pre-retirees. These results show substantial differences in what is important and in risk management strategies by income level. Appendix B provides some results by income level.

Findings With Regard to Shocks Experienced by Retirees

Planning generally focuses much more heavily on the expected than the unexpected. But life is a mixture of both, and how well people handle the unexpected is a big determinant of how well they will do overall. As indicated above, many people are poorly prepared for unexpected expenses. Retiree experience with

[3] This research covers pre-retirees and retirees, and the age range is 45 to 80.

regard to shocks and the unexpected was a major focus of the SOA research. Here are some of the key findings from the 2015 SOA risk survey and focus groups:[4]

- Retirees are resilient and indicate a willingness to make substantial adjustments in spending. Many are managing very well, and overall they are doing better than some members of the project team had expected.

- When asked about financial shocks and unexpected expenses, retirees most frequently mention home repairs and upgrades (28 percent) and major dental expenses (24 percent).

- Multiple shocks are a much bigger problem than single shocks. About one in five retirees (19 percent) and 24 percent of retired widows experienced four or more shocks during retirement. In contrast, 28 percent of retirees and 13 percent of retired widows had not yet experienced any shocks.

- The problems were much greater for lower-income retirees. Among retirees with annual income of less than $35,000, 29 percent had experienced four or more shocks, compared with 10 percent of retirees with income of $75,000 of more. The experiences and perceptions of retirees were quite different by income level in many different areas.

- More than one in three who experienced shocks had their financial assets reduced by 25 percent or more as a result of those shocks.

- More than one in 10 who experienced shocks had to reduce spending 50 percent or more as a result of those shocks.

- About three in four retirees say they are able to manage at least somewhat well within their new financial constraints.

- Retirees were able to make adjustments and deal with unexpected expenses in a number of areas, but not major long-term care events requiring paid long-term care, or divorce after retirement. Both of these shocks had a major impact. Adult children receiving longer-term support also was a major issue.

- Those who purchased a Medicare supplement in addition to Medicare usually had their health care bills well covered. Of course, they can pay substantial premiums, including Medicare Part B and D premiums, in addition to the supplement premium. In contrast, dental expenses are not covered by Medicare or Medicare supplements. So, for people with Medicare supplements, dental expenses were surprising, but health care costs were usually not an issue. There can be exceptions to this if there is treatment not covered.

Another View on Shocks: Financial Stresses

The study report *How Americans Manage Their Finances* provides insight into many financial issues for Americans at all adult ages. That study also provides considerable insight into expenses causing financial stress and debt, and into the ability of Americans to pay unexpected expenses at various levels. Results are separated by age but not by retirement status. These results are a very good supplement to the SOA survey and provide additional results.

[4] Percentages shown are from the risk survey results.

Related to shocks are financial stresses. Financial stresses are hard on the individual and may cause problems for them at work. Financial stresses affect productivity and workplace performance. They also reduce the chance that people will save for retirement. Further, they increase the chance that financial resources set aside for retirement will be used prematurely. The study asked respondents whether their household had experienced financial stress in the last three years; 56 percent said they had experienced no major financial stress during that time. At ages 18 to 39, the biggest issues were losing a job and/or having hours reduced (cited by 28 percent), having a significant health issue (12 percent), and providing help to family members or family members losing job (8 percent). Results varied greatly by age. Table 1 shows selected results.

Table 1. Financial Stresses Over Last Three Years by Age: Selected Results

Question: What was the cause of any financial stress your household had in the last 3 years?

	Percent of Respondents, by Age Group					
Type of Stress	**18–39**	**40–49**	**50–59**	**60–69**	**70+**	**All**
No major financial stress	51	51	55	67	72	56
Loss of job or having work hours and/or income reduced	28	23	21	11	0	21
Having a significant health issue	12	16	13	12	8	12
Providing help to family member(s) or family member losing job	8	9	10	8	6	8
Getting separated or divorced	5	6	2	0	0	4
Having unpaid taxes	3	5	6	3	3	4
Having mortgage balance higher than property value	3	6	5	1	0	3

Note: "Other" and a variety of causes for which there is less than a 3% response are not listed in this table but are in the report. Respondents selected all options that applied, so totals add to more than 100%.
Source: Carvalho et al. (2015, Table 71).

Note that numbers in Table 1 add to more than 100% because individuals may have experienced more than one financial stress. Respondents are likely influenced both by their overall financial picture and the event. The same event will cause stress in one household but not in another. Also, the expense that retirees retired more than 15 years most often brought up in the Society of Actuaries focus groups was home repairs, which is not mentioned on this list, but 8 percent selected another category, as detailed in the table note. A further consideration is that the items raised in the SOA study did not necessarily need to have caused stress; they might have simply been unexpected.

Filing for bankruptcy and receiving a mortgage foreclosure notice are both very difficult events. In both the risk survey and this survey, relatively few people reported having had this experience. Also, problems with debt can be major, even without bankruptcy, but these results do not provide evidence about how common that is. This study shows getting separated or divorced to be a problem for 4 percent of the sample overall, but for very few people over age 60. The SOA study results indicated that for people who were retired 15 years or more and had been divorced after retirement, divorce was a major problem and difficult to recover from. In many cases, divorce will mean splitting of the assets.

Table 2 provides information about what the respondents did in response to the financial stress. Clearly, respondents selected multiple responses. The most common response, chosen by 54 percent of respondents, was to cut expenses. The next most common response at all ages, and the most common response for those over age 70, was to withdraw funds from savings. The third most common response was to get help from others. Several methods of borrowing were listed, and when the methods are combined, borrowing was also a common response, but it was used less by those over age 70.

Table 2. Responses to Financial Stresses by Age

Question: What did you do in response to the financial stress that your household experienced?

	Percent of Respondents, by Age Group					
Response to Stress	**18–39**	**40–49**	**50–59**	**60–69**	**70+**	**All**
Got help from others	28	26	22	19	19	25
Borrowed money using credit card	11	14	12	18	9	13
Borrowed using payday lending	6	10	1	8	1	6
Mortgaged home or increased mortgage on home	2	3	2	7	0	3
Borrowed from bank	7	4	3	5	0	5
Withdrew from savings	24	28	38	32	30	29
Cut expenses	55	60	59	50	21	54
Negotiated debt	13	10	8	10	11	11
Did not pay expenses that we owed	19	16	12	15	1	15
Other	11	10	19	22	18	14

Source: Carvalho et al. (2015, Table 72).

To put these results in perspective, it is interesting to look at what amounts respondents said they could pay in the event of unexpected expense (Table 3). The study explored how difficult it would be to have an unexpected expense of $500, $1,000, $5,000 or $10,000. About 31 percent could not easily pay for even a $500 unexpected expense, and 70 percent could not easily pay for a $1,000 unexpected expense. This indicates quite a severe problem for many households.

Table 3. Degree of Difficulty in Paying for an Unexpected Expense, by Amount

	Percent of Respondents, by Expense Amount			
How Hard It Would Be to Pay	**$500**	**$1,000**	**$5,000**	**$10,000**
I could easily pay for this expense	69	30	13	10
I could pay for this expense, but it would involve some sacrifices	17	47	20	11
I would have to do something drastic to pay for this expense	5	10	44	14
I don’t think I could pay for this expense	9	13	23	70

Note: Numbers may not add to 100%, due to rounding.
Source: Carvalho et al. (2015, Tables 82, 84, 86 and 88).

Older respondents are better equipped to deal with these expenses than respondents at all ages. Table 4 shows results for respondents aged 70 and over. This information should be considered together with the information on shocks (discussed in a separate report) and provides insight about the size of an unexpected expense that will cause a major problem. It also offers insights as to why multiple shocks are a bigger problem.

Table 4. Degree of Difficulty in Paying for an Unexpected Expense: Respondents 60 and Over

How Hard It Would Be to Pay	Percent of Respondents, by Expense Amount			
	$500	**$1,000**	**$5,000**	**$10,000**
I could easily pay for this expense	85	49	25	23
I could pay for this expense, but it would involve some sacrifices	8	38	30	14
I would have to do something drastic to pay for this expense	2	5	37	17
I don't think I could pay for this expense	4	8	9	46

Note: Numbers may not add to 100%, due to rounding.
Source: Carvalho et al. (2015, Tables 82, 84, 86 and 88).

Another Perspective: the Measures of Benefit Adequacy Study

Other SOA-sponsored research showed a different perspective on shocks. *Measures of Benefit Adequacy* (Bajtelsmit et al. 2013) reports on a study that used stochastic modeling of an average American household and showed very large differences in what was needed at the median and what was needed in order to be 95 percent confident of success. The study focuses on measuring retirement benefit adequacy in light of both expected and unexpected expenses in retirement. Shocks were the major driver of the big differences, with low-frequency, high-severity events such as long-term care being particularly important. An important conclusion in *Measures of Benefit Adequacy* is that if one plans for retirement financial success without taking shocks into account, there is a major chance that the results will not work out.

To investigate the impact of various risks on retiree welfare, the researchers developed a simulation model of retirement spending, incorporating standard-of-living goals as well as investment, inflation, life, health, and long-term care risks, with distributional assumptions for each random variable. This is unusual in that it more realistically considers the combined impact of many of the risk factors faced by retirees and works the effect of the shocks into the results.

The key findings provide insights related to shocks, including the following:

- While it is much easier to plan for expected events, so-called shock events must be taken into consideration, since they are more likely to derail an individual's retirement plan, especially for those in lower income levels. For the median-income household, shocks are the biggest driver of asset depletion.

- Long-term care risk is particularly challenging and is difficult to plan for. Long-term care insurance can help, but it is used by relative few households, and it can be expensive and may offer limited coverage.

- Averages can be misleading in that they disguise the impact of shock events. The best strategies to preserve assets, ignoring shocks, may not be the best strategies once shock events are considered. Making retirement decisions based on averages increases the risk of running out of money: The level of retirement wealth necessary to be 95 percent confident of having sufficient funds to meet all cash flow needs is much higher than what is needed *on average*. These extreme differences are largely driven by shocks and variations in investment returns.

- The model shows there is a 29 percent chance median-income households will have positive wealth at death. The assets needed to meet cash flow needs 50 percent of the time would be approximately $170,000, compared with approximately $686,000 for a 95 percent success rate (see Bajtelsmit et al. 2013, Table 10). Results are presented for two additional income levels and two wealth levels for each scenario.

- There is no one-size-fits-all measure of benefit adequacy, and there are many moving parts, depending on the purpose and the stakeholder using it. Individuals need to be aware that attempts to oversimplify the retirement-planning process can be very dangerous if used for personal decision making.

- It is important to consider and, to the extent possible, quantify the potential impact of shocks such as long-term care. Low-frequency, high-severity risks can result in income inadequacy, particularly for those at lower middle income levels. This makes it more important to consider ways of mitigating the risk for retirees at those income levels.

- Many of the next generation of retirees are potentially facing a big drop in their standard of living when they retire.

- The median American married couple at retirement earns approximately $60,000 a year and has approximately $100,000 in non-housing wealth (case study developed considering the 2010 Survey of Consumer Finances, adjusted for wage inflation and recent market performance; Bajtelsmit et al. 2013; Board of Governors of the Federal Reserve System 2010).

- Retirement planning needs to continue after retirement as situations change. Individuals should also take a holistic approach that incorporates the interactions between various decisions and events.

- Moderate- and higher-income households can successfully retire with 20 percent less savings if they are willing to cut their budgets by 15 percent. Reduced spending does not significantly reduce the impact of depleting assets for the median family, because shocks are the major driver of asset depletion.

The report also includes a conceptual discussion of benefit adequacy and the various ways it has been and can be measured. Adequacy measures examined include replacement ratios, projected expenditures and minimum societal standards. Both income needs and lump-sum equivalents are considered. Different measures are better suited to the needs of different stakeholders and at different life stages. Unless insurance is purchased for a risk such as long-term care, these adequacy standards do not manage shocks very well.

The Impact of Life Events on Household Assets

The GAO's (2012) report *Retirement Security: Women Still Face Challenges* includes estimated effects of life events on household assets and income by gender (Table 5). Becoming divorced or separated has the biggest impact, followed by becoming widowed. Unemployment and health decline have much smaller reductions in assets and income. Note that this analysis uses the Health and Retirement Study (HRS), so it covers adult ages starting around 50 and older and is different from some of the other work that focuses on older ages. Retirees are not separated from pre-retirees.

Table 5. Estimated Effects of Life Events on Assets and Income

Life Event	Percent Change in Total Household Assets		Percent Change in Total Household Income	
	Women	Men	Women	Men
Became divorced or separated	–41	–39	–41	–23
Became widowed	–32	–27	–37	–22
Became unemployed	–7	–7	–9	–7
Health declined	–8	–10	–4	–3

Note: Results based on GAO analysis of the Health and Retirement Study (HRS).
Source: GAO (2012, Table 1, p. 28).

The results for widowhood from this study show large declines in assets and household income. This seems to be inconsistent with the information reported in the SOA post-retirement risk surveys. The SOA research asks people if they are better off, worse off or about the same. While the group is split, it does not show people being significantly worse off.

Factors With an Impact on End-of-Life Assets

Another analysis of HRS data (Poterba et al. 2015) looks at asset pathways from first entry into the HRS database to the end of life. This paper focuses on the question of what leads to low assets at the end of life. The analysts find that wealth level at first entry into the HRS is a major factor contributing to wealth level at the end of life.[5] The biggest pathway to low assets at death is low assets at entry into retirement. However, some types of events, including widowhood, divorce and major health events, also contribute to substantial drops in assets. In addition, some people enter retirement with some accumulated assets and then "outlive" them. These results are consistent with the GAO study previously discussed.

Fraud and Financial Exploitation

The Society of Actuaries research gives little information about the risks of fraud and financial exploitation in retirement. In the SOA surveys, the risk of fraud is not ranked very high on the list of concerns by retirees. But older Americans have long been the target of unscrupulous investment scam artists, and people tend to underreport fraud. The Investor Protection Trust (IPT) works to teach people how to protect themselves, and it also does research on elder financial exploitation. According to the 2010 IPT Elder Fraud Survey, more than 7 million older Americans—one out of every five citizens over the age of 65—already have been victimized by a financial swindle (IPT 2010).

A new survey, Elder Investment Fraud and Financial Exploitation, conducted for the Investor Protection Trust and released March 2016, provides more information (IPT 2016). The report says that 17 percent of Americans aged 65 or over—more than 6.5 million senior citizens—have been taken advantage of in terms of an inappropriate investment, unreasonably high fees for financial services, or outright fraud. Further, nearly half of adults surveyed with parents aged 65 or older expressed concern that they are "very" or "somewhat" worried that their parents "have become or will become less able to handle their finances over time."

It should be noted that the face of fraud has changed over time. The Internet offers a means for regular solicitation by fraudsters, and it offers access to personal information that can be used in frauds. It is a powerful tool, but it opens the way to fraud as well.

[5] Individuals were as young as their early 50s at entry into the HRS in 1992, but some people were older. The paper looks at results by age at entry into the study.

Insights Into Money Management and Debt

The working paper "How Americans Manage Their Finances" (Carvalho et al. 2015), which covers all adult ages starting at 18, provides insights into general financial management. When respondents were asked how hard it would be for them to pay an unexpected expense of $1,000, less than one-third said they could easily pay this expense. Only one in seven said they could easily pay for an unexpected expense of $5,000, and one in 10 could easily pay for an unexpected expense of $10,000. This information is particularly disturbing when considered together with the information on short planning horizons.

Half the respondents (52 percent) said they had no investments, and 21 percent said their investments were professionally managed. Of the balance, 26 percent managed their investment themselves, and 2 percent used family and friends. Note that funds in a 401(k) plan are considered to be professionally managed.

Only 3 percent of respondents said they had professional help with everyday money management in the previous year. Most respondents (80 percent) said they did not need help, and 13 percent had help from family or friends.

The vast majority of the respondents (91 percent) had bank accounts, and 9 percent were unbanked. The unbanked are more likely to be low income and minority than the banked. The study also provides insights into use of alternative financial services, such as cash advances on credit cards and payday loans. Asked about these alternatives, 16 percent said they had used cash advances on their credit cards in the previous three years, and 9 percent that they had used payday loans in the last year. Note that cash advances on credit cards and payday loans are very expensive ways to borrow money.

Debt is an issue linked to the ability to save for retirement, as well as the way people manage during retirement. The "How Americans Manage Their Finances" report indicates that many of the homeowner respondents have mortgage debt, including about half of those in their 60s and a third of those over age 70. Of the respondents with mortgages, 23 percent said they had refinanced in the previous three years. More than half of respondents who are credit card users said they carry monthly balances. For 15 percent of adults, student loan debt for themselves or their children may persist well into middle age.

Insights and Conclusions

These studies provide a lot of information about how older Americans manage finances. When this information is combined with earlier work, it provides an opportunity to draw even more conclusions. This section combines insights from several different studies.

Insights About Planning and Decisions

Disturbing Findings About Dealing With Health and Long-Term Care Risk

It is interesting to note that paying for both long-term care and health care have consistently been on the "top concerns" list in the risk survey series, but the risks associated with these two concerns are very different. After age 65, Medicare covers nearly the entire population for acute health care costs, and most people buy supplemental coverage, which covers the majority of health costs. However, there is no public coverage of long-term care except for Medicaid, which offers coverage only to those who have minimal assets and low income. Few people buy long-term care insurance, and only about 10 percent of long-term care provided in the market is paid for with private long-term care insurance. Most long-term care is provided on an informal basis by family and friends. While the majority of people will ultimately need some assistance, only a small number need major long-term care support. But for those who do need major long-term care support, the expenses and the impact on the family are often devastating.

Limitations of Planning

The research offers insights into how people planned in general and particularly how they planned for shocks and unexpected events. The SOA focus groups showed that while there is a lot of awareness of "regular monthly bills" and short-term cash flow planning, there is not much planning done for less regular expenses that could be anticipated and budgeted, such as home repairs and dental costs. As in prior studies, planning horizons are too short when compared with the rest of life expectancy, and there are gaps in planning. Also, risk management products are not well understood and not used very much.

Retirement Planning Means Different Things to Different People

As an actuary, when I think of retirement planning, it seems automatic to think about the long-term, rest-of-life risks and contingencies and the time value of money. There will be differences among actuaries about which risks are important and how to measure them, but generally they will embrace these ideas. It may be surprising that for some people (probably without quantitative backgrounds), planning is very different. In three different sets of focus groups,[6] the CPRNR heard from individuals for whom planning meant a cash flow forecast that focused on their "regular bills" and "income." If they could pay their regular bills, that was their goal. For some of them, it was short term and not long term. For some of them, when the issue of risk and uncertainty was raised, the response was "I will deal with it when it happens." The gaps in planning are bigger than imagined, and this goes hand in hand with the focus group members' goal of not spending down assets.

Many people do not want a plan to spend down and use assets. The CPRNR has been very focused on the question of how one might systematically use assets over the retirement period and not use them up too fast. The CPRNR has discussed lifetime income and other spend-down strategies. Most recently, the CPRNR has sponsored a project looking at the application of efficient frontier theory to retirement income. But in focus groups, some of the participants have indicated that they want to hold on to their assets. They do not embrace any spend-down plan, and they are withdrawing the Required Minimum Distribution from their tax-protected retirement funds only because they are required to do so. In addition, to some, these withdrawals when spent are not considered a spend-down of assets, since the withdrawal is required.[7]

Insights About Retirement

Retirement Success Is Not Just About Money

While adequate financial resources are necessary, the resources alone are not enough. As previously indicated, there is much more to retirement wellness. During nearly 20 years of work on this topic, I gradually recognized the importance the range of issues discussed in this article.

Importance of Housing Wealth

For many middle-income American families nearing retirement, their home is their major asset. In two Segmenting the Middle Market studies (Abkemeier 2010; 2013),[8] the CPRNR found that housing wealth far exceeds financial assets for many families. This finding changed my thinking about retirement-

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[6] Focus groups were conducted with retirees in 2005, 2013 and 2015. The 2013 focus groups were resource-constrained retirees who had retired relatively recently, and the 2015 focus groups were resource-constrained retirees who been retired for at least 15 years.

[7] There are generally similar findings in the 2013 and 2015 focus groups.

[8] The studies show assets—financial and nonfinancial—for the middle market and the mass affluent for two age groups nearing retirement. The results drove recognition that for many Americans, financial assets are a small part of their retirement picture. The research was done twice, once with 2004 Survey of Consumer Finances data and once with 2010 data. Based on the decision that the conclusions would be similar with 2013 data, the study was not updated for that year's data. Note that these studies did not include the value of Social Security or defined-benefit plans.

planning issues and has made me always want to include some consideration about housing when the CPRNR discusses planning strategies. These findings also made me realize that planning focused on investment management and use of invested assets was not relevant to the needs of many people.

Many Voluntary Retirees Felt "Pushed" Into Retirement

In 2013, the CPRNR conducted focus groups with people who indicated they had retired voluntarily and were financially resource constrained. This was followed up by the risk survey. Previously, we knew that there were many involuntary retirements. What we learned in 2013 was that many voluntary retirements were also "pushed." Reasons included unpleasant working conditions, family needs and health challenges. We also learned from this group that few of them had retired to realize a dream.

More People Expect to Work in Retirement Than Do

Working in retirement can be difficult, but retiring later and working in retirement are important ways for people with limited resources to improve their retirement security. The chances of being successful with work in retirement are greatly enhanced if people maintain skills and contacts, are willing to accept reduced roles and responsibilities, and have a strategy to stay employable. Phased retirement is of interest to employees but not often used by most employers. Part-time jobs are more widely available. It is hard for older persons to get jobs. For some people, this issue is just as or more important than learning about investments. Failure to be able to work early in retirement or as long as expected can have a major impact at the earlier ages, since it will probably mean the value of assets will be lower.

Perspectives: Where Do We Go From Here?

The research shows that many retirees are managing quite well, even though there are substantial gaps in knowledge, planning and risk protection. However, many also do not have a good plan in place for shocks and unanticipated expenses. Major long-term care events are a disaster for many households. There are big gaps in knowledge about financial exploitation.

The transition to fewer defined-benefit pensions and more defined-contribution plans and personal savings may make the gaps worse. Households vary greatly in what they have saved. Many will reach retirement age with no or very small financial assets. Future changes in Social Security may also make it more challenging for retirees to manage. In combination, all of these trends increase the responsibility placed on participants.

To address the challenges, action is needed in several arenas—public policy and social-benefit systems, public education, financial-service company offerings and products, and employee benefits. The research suggests the following areas for action:

- Planning is often focused on regular monthly bills and not on irregular expenses that could be expected (such as a new roof) or on risks like long-term care. It is important for individuals to focus on better planning for cash flows and understanding the need for emergency funds.

- Many people go into retirement with debt, and it can derail retirement security and be a barrier earlier in life. Helping people be smart about debt can contribute to retirement security.

- Many people are not familiar with risk management products, and these may be underutilized. Financial products are not very popular. While this may be partly due to lack of knowledge, maybe the products and/or their distribution methods can be improved to get risk protection to more people.

- Each of the SOA surveys found substantial gaps between pre-retiree expectations and retiree realities, particularly in areas related to work and retirement. Individuals who are 50 and older should seek better information to help build more realistic expectations.

- It would be very helpful for people to know more about preventing financial exploitation.

Areas for More Research

The long-term care system does not work very well for many of the people with major long-term illnesses. Relatively few people have long-term care insurance, and the Medicaid system is under a lot of strain. The private long-term care market is in a state of flux. A better national approach is needed.

The 2015 focus groups with people retired 15 years or more include people in their 80s, but that is about the limit. Focusing on people in their late 80s and 90s will add more to understanding the stages of retirement.

More work should be done on examining changes during retirement and how well they are handled.

Families play a major role in helping each other. Parents help adult children; grandchildren and children care for elderly parents and may help them. The overall makeup of families is complex, with a growing number of blended families and with acceptance of a range of family options. More work is needed to understand the roles of families in retirement.

Software and tools are important aids in supporting planning, but they may not work well in all situations. More research is needed to understand where they work well and where they do not.

The variety of research around the state of financial and retirement preparedness provides insight into how pre-retirees and retirees deal with financial management, shocks, planning and perceptions. Some common patterns have been found in several studies. Many retirees work things out reasonably well, but quite a few do not. The insights provided should help in building better paths to and through retirement. This is very important, since the current path is one on which the challenges are likely to grow.

Appendix A: Quotations From the Focus Groups

Quotations from the focus groups give a face to some of the experiences of these retirees. A major topic for the focus groups was shocks, but the discussion turned into much more of a focus on unanticipated expenses, which were financial shocks to the people. Many of these were one-time expenses, and some were continuing expenses. One-time expenses are much easier to cope with than continuing expenses. Here are some examples. They have been selected to illustrate the topics discussed in this paper. There are more quotations in the full focus group report.

Family issues can be a big drain for some retirees. Family help includes various responses to health problems, help to grandchildren, support after job loss, support to families who split up, responses to poor financial management, voluntary gifts when there is not a problem and more. Some of the retirees spend a great deal of money to help family. It should be noted that, in turn, family members often help retirees, but there is no way to predict when this is likely.

The following comments address financial help to family members that is linked to health and injury issues:

> *"My son also was very sick. In fact, he passed away from breast cancer. We gave a noticeable amount to help him out."*
> *Female, Marital-Change Group in Chicago, IL*

"My son had cancer, and I wanted to help him. He asked for nothing and was extremely appreciative. He is also in the construction field, and it is cyclical. It's up and down. So when I felt he was really having an issue, why not help him now instead of waiting till my demise?"
Female, Marital-Change Group in Chicago, IL

"He has an apartment, but when he gets sick, he always comes to stay with us to calm him down. He is there right now at the house. He gets better and then he goes back and lives his life as best he can, and we are his support and not only monetarily, but to encourage him to go on."
Male, High-Asset Group in Dallas, TX

"My son became very ill, and he had a house, and he thought he had insurance that kicked in after he was off so long, and he went right into debt with this house. He was going to lose it, so I had to remortgage my house to get out of that mess, and then he sold it."
Female, Marital-Change Group in Kitchener, ON

"My child was injured, and I had to help them out in order to survive. There's no help for him in his line of work. The government doesn't help, so he had to come to me."
Female, Health Decline Group in Edmonton, AB

The following comments are examples of family help linked to helping grandchildren and helping family members after a split-up:

"Yes. I have one of my sons is divorced, and it's really a tacky situation, but he's also got three children in college."
Female, Health Decline Group in Chicago, IL

"My son has a daughter with this lady, so we've had to step in and help her just putting food on the table and that sort of stuff. We pay his child support some months. Had to step in and help in that way."
Male, High-Asset Group in Dallas, TX

"Well, we have tried to maintain them some college money, and the oldest one starts A&M this fall. So we have done some with it, not as much as we would have liked to, but up to a point we've been able to."
Male, High-Asset Group in Dallas, TX

Other family help was linked to problems such as these:

"My son-in-law dies of cocaine and sleep apnea, and I wound up paying her taxes, because he had taken out all of his 401(k) and spent it on cocaine and didn't pay any taxes on it or anything."
Male, High-Asset Group in Dallas, TX

"When I gave my one son, I said, 'What are you going to do with that $25,000?' He said, 'I am going to pay my income tax.' So he needed that money."
Female, Health Decline Group in Chicago, IL

"My son lost his job about three years ago and very unfortunate circumstance and couldn't find a job for almost a year. He would have lost his house if we wouldn't have been able to financially help him. So we did that. Again, it's the type of thing that you never know what the future brings, and you want to be prepared to help out."
Male, Marital-Change Group in Kitchener, ON

Gifts to family, though cited much less often than help linked to problems, were also included:

> *"When my two sons bought their house, I gave $10,000 to each of them—a gift to help."*
> *Male, Low-Asset Group in Baltimore, MD*

> *"I help them out now. They are both . . . like we go on a cruise, and we will say, 'Do you want to go along with us?' and we will pay for a vacation."*
> *Male, Health Decline Group in Dallas, TX*

I was surprised (as were some of the other committee members) that home repairs were often mentioned as unexpected expenses. It was puzzling to me that there was not an expectation of home repairs and that they were not included in plans. With regard to unanticipated home repairs in retirement, the retirees made a number of comments. These did not seem to be related to storms and natural disasters, but rather to the things one can expect when owning a home:

> *"I've had these unexpected house things. I just spent, in November, $5,000 because of the water seepage problem that has gotten progressively worse. I'm older, and I can't get down there and wipe it up each time, and I still don't know whether it is resolved. More might be in the works. I have the money to pay these things, but what bothers me is that I have this CD and then the money market, and as I pull from the money market, then I have to pull from the CD."*
> *Female, Marital-Change Group in Chicago, IL*

> *"Owning a home—next thing you need a new roof, and then the water heater goes up, then the refrigerator."*
> *Female, Health Decline Group in Baltimore, MD*

> *"I built a house. The 11th year after I built it—of course, their warranty was 10 years—on the 11th year, there was a leak in my bathroom, and I didn't know it. I am highly allergic to mold, and it cost me $13,000."*
> *Female, Low-Asset Group in Dallas, TX*

> *"That was $8,000 for the shingles. And I'm going to have to replace the furnace one of these days; 1980 furnace is still blowing."*
> *Male, High-Asset Group in Edmonton, AB*

> *"My roof was $10,000."*
> *Male, High-Asset Group in Edmonton, AB*

For retirees over age 65, health care costs other than drugs or dental are unusual for those with Medicare supplements, but they can happen. Drugs and dental and the coverage rules of government programs are an issue in both the United States and Canada. Here are some examples of unplanned expenses:

> *"Doctor called me the next day and said, 'Get to the hospital immediately. You are critically anemic.' And so I went over to Baltimore Washington Medical Center, and of course I had insurance. I had the supplemental with Medicare, and so I figured it might cost a little bit, but they only kept me 42 hours. Unless you are kept 76 hours, you had to pay, so that was a huge expense. . . . It wound up costing $4,000 for three pints of blood."*
> *Female, Health Decline Group in Baltimore, MD*

"I have macular degeneration also. It's not any fun. We've all had problems. I died three times, and I saw how much that cost. I was in a coma for three weeks, and I saw how much that cost, and it was at least a quarter of a million dollars. It cost me like five."
Male, High-Asset Group in Dallas, TX

"I've got a brand name, and I pay $97 a month."
Female, Health Decline Group in Edmonton, AB

"I had a very expensive dental bill that I had not planned. I've paid already $3,000, and I've just begun."
Female, Health Decline Group in Baltimore, MD

Investment losses were not mentioned as often. Fraud was mentioned rarely. But both can happen:

"Mr. Madoff."
Female, Health Decline Group in Chicago, IL

"The biggest thing, about 18 years ago, I did have a lot of shares of Citigroup, and they were paying like $17,000 a year dividends. That went down to $30."
Male, Low-Asset Group in Baltimore, MD

Inflation is regularly mentioned as a concern in the risk surveys. For U.S. retirees, Social Security is usually the only source of inflation-protected income. In the focus groups, some retirees seem to regard inflation as unanticipated:

"I haven't. My pension doesn't increase by half of the rate of inflation anymore. They just wiped that out."
Male, Marital-Change Group in Kitchener, ON

"The cost of things keeps going up."
Male, Health Decline Group in Kitchener, ON

The retirees also talked about their spending and how it had changed since retirement. Managing day-to-day spending was very important to them. Frugality was important to some of them, and some had become increasingly frugal. Some of the comments focused on the bigger picture:

"I'm spending more since my husband died, because we have not done any home maintenance for 40 years. He never wanted to be bothered with that. So I've got a lot that is facing me in that house."
Female, Marital-Change Group in Chicago, IL

"But I watch what I buy, and a lot of things I don't even buy anymore, because it's too expensive. When I go to the grocery store, 'I don't really need that.' Whereas back in the good old days, you bought what you wanted. It didn't seem to be that expensive."
Female, Health Decline Group in Edmonton, AB

"Now today, I am basically on a fixed income, from investments to Social Security to my pension. Well, when you are the average housewife, I'm speaking for myself and a lot of my neighbors, you can have a couple pair of jeans and T-shirts, and you get along just fine. You don't have to go out and spend a lot of money."
Female, Health Decline Group in Chicago, IL

"When I was working and making a considerable amount of money every year, I didn't shop. If I needed something, I would go buy it. I never thought about shopping. I will tell you something: my wife and I have made shopping and coupon clipping—of course, using the Internet—a hobby."
Male, Low-Asset Group in Baltimore, MD

"I think our needs are a lot less than our wants, and we all have way too much stuff that we can live without."
Female, Marital-Change Group in Chicago, IL

Several of the comments focused on travel:

"I would say lower, especially for traveling. If you retire, you can go the cheap way."
Male, Health Decline Group in Kitchener, ON

"We are not extravagant. We don't fly anymore. We drive. I couldn't tell you how much we spend on food, because my wife handles it. We don't eat steak every night or anything like that."
Male, Health Decline Group in Dallas, TX

"My spending has gone down terrifically, because I don't go on vacation very . . . well, I haven't been on vacation now for a couple of years. I'm older. I don't know, I just don't need stuff anymore."
Female, Marital-Change Group in Chicago, IL

Others focused on day-to-day spending and decisions:

"We probably spend a little more eating out, but of course, I am working part time, so I am making a little extra money, too. We do probably spend a little more eating out with friends and so on and so forth."
Male, Health Decline Group in Kitchener, ON

"My needs are much less, so I just act accordingly."
Female, Marital-Change Group in Chicago, IL

"I expected them to be lower. I think a lot of it has to do with your lifestyle in general. Do I really need that ice cream cone, that $2.50 cone? Is it really worth it, or can I just go home and eat the gallon of ice cream I bought for $1.99? I think as you mature and get older, you just don't need as much."
Male, Health Decline Group in Kitchener, ON

Retirees also discussed where the money for unexpected spending came from:

"I don't feel like I overspend anyways, so it just comes out of your assets. If you have to buy a new air conditioner or whatever, you just take it out of the savings and pay for it."
Female, Low-Asset Group in Dallas, TX

"I have an emergency fund that I keep for things like that that I'm able to replenish it over a year or so. There's enough in there to take care of the house almost."
Male, High-Asset Group in Dallas, TX

"Home equity loans rather than mess with your savings with the low interest rate."
Female, Health Decline Group in Baltimore, MD

"That's one of the reasons why you have a sudden expense that all you can do is take it out of the asset, because what's your choice? I would like to build it back up, but about the only way that there is to build it back up is to, I don't know, go do an opinion survey or something."
Male, Health Decline Group in Dallas, TX

"Regroup. Look at your finances, and regroup to see what you can cut out, see what you don't really have to have."
Female, Health Decline Group in Baltimore, MD

"Make adjustments according to the changes as they go."
Female, Marital-Change Group in Kitchener, ON

"But these are things I can handle. You have to just manage it."
Male, Low-Asset Group in Baltimore, MD

Attitudes to and use of health and long-term care insurance are very different. Many people have supplemental health care insurance coverage in addition to Medicare:

"We have Medicare, and it's just your supplement that you have to pay."
Female, Marital-Change Group in Chicago, IL

"I still kept most of the doctors I had before, and I'm paying nothing every month. I have the drug plan with a $45 copay."
Female, Low-Asset Group in Dallas, TX

"Between Medicare and the supplemental, we can go to any doctor that takes Medicare, and we walk out zero, nothing."
Male, High-Asset Group in Dallas, TX

"I have dental insurance, but it doesn't pay for the whole thing. My wife had implants, and the insurance allows so much."
Male, Health Decline Group in Baltimore, MD

Long-term care insurance is purchased much less often, and people often self-insure the long-term care risk. The discussion focused on both reasons for buying long-term care insurance and reasons for not buying it.

"I live alone. There is nobody going to take care of me, so it's an expense I think I ought to have."
Female, Health Decline Group in Baltimore, MD

"I have long-term care insurance. I have really a good policy, I'll say. I have a lifetime. You can have a policy that is for four years, okay, or you can have it for as long as you need it. I know when I go into a nursing home, it pays for somebody to come in and take care. It also pays for assisted living that you need."
Female, Health Decline Group in Baltimore, MD

"We bought it when we were younger. We didn't, at that time, ask our children. That was our decision, and we did it."
Female, Marital-Change Group in Chicago, IL

"When I signed up, I was young enough, and I think I pay $1,200 a year for long-term care insurance. I don't think that is too bad."
Female, Marital-Change Group in Chicago, IL

"Back in early '80s, we bought long-term care. It was good long-term care, I'll have to admit, but it was costing about $250 a month for each of us. And when I started thinking about it and I said, 'By the time I need that long-term care possibly'—you got to go to possibilities, nothing is definite—but 'by the time I needed that long-term care, I would have put half a million dollars in it' (one agreeing). I waited until about four years ago, and I got long-term care. And my premium is about double that, but still I'm going to come out ahead in the long run. But long-term care I think is a requirement nowadays to buy."
Male, High-Asset Group in Dallas, TX

"I bought a long-term care policy way back when I was working at IBM. I don't even know if they sell these kinds of policies anymore. But it was a long-term policy that you could actually pay off. I bought that, and you buy it for different amounts back then. But it pays $150 a day, and that is what it pays."
Male, Low-Asset Group in Baltimore, MD

Here are comments from people who did not buy long-term care insurance:

"It's too late for me, but my wife does have and has had for quite some time long-term care."
Male, Health Decline Group in Dallas, TX

"I don't, but my wife does."
Male, Low-Asset Group in Baltimore, MD

"I would love to have it, but it's too expensive."
Female, Health Decline Group in Baltimore, MD

"I've thought about it for myself and my wife. It can be disastrously expensive, but then when you looked a little bit at maybe even buying the insurance for that, it's not cheap either. It's a rock and a hard place."
Male, Health Decline Group in Dallas, TX

"We couldn't afford it. We decided that we could probably with the house and different things—be careful with what we spend—that we might be able to provide it with our assets, and now we are beginning to wonder if . . . as we live longer."
Female, Low Asset Group in Dallas, TX

"Because my friend went to the same one I use, and he said long-term care is very pricey and you will not be—they travel a lot and do a lot of things—if you take long-term care and pay for it, you will not be able to live the lifestyle that you are living now."
Female, Health Decline Group in Chicago, IL

"I don't have long-term care insurance. I understand it's very expensive, and I was told that it's not good to buy a policy, because they make a lot of business before you ever get to where you need it. But that is a concern that if you get . . . because I've seen that happen to other people that something happens, and you start losing your mental faculties, and they have to go into a long-term care facility."
Female, Low-Asset Group in Dallas, TX

Another topic explored was confidence at time of retirement and how that has changed:

"At the time, I was confident. I'll tell you why. While we were getting ready for retirement, we knew it was coming soon, and so what we were looking for was a smaller house. We had the

equity we had built up in the house we were living in to not only pay for the smaller house, but we had money left over."
Male, Health Decline Group in Kitchener, ON

"My wife and I projected what our income and expenses would be in retirement and combined that with the situation we found ourselves in. We made the decision that we would be able to go into what you might call full retirement rather than saying, 'Okay, I am going to go out and find another job' kind of thing."
Male, High-Asset Group in Edmonton, AB

"Fairly confident because I had a fairly good pension."
Female, Health Decline Group in Edmonton, AB

"I had my house paid off, my cars paid off, two children went through college, paid all their college. They then got married. Like, once you've paid all that, you can sit back."
Female, Low-Asset Group in Dallas, TX

"A simple concern was to get the mortgage paid for as soon as possible, and the next major item would be a car, so those two things were paid for early. Thereafter, it didn't matter whatever else came along. We can now live with a reduced income."
Male, Marital-Change Group in Kitchener, ON

"I shouldn't say when I retired, but when my husband passed away—that is when I was concerned. He's gone two and a half years. We had a nice income coming in. I mean, nothing wealthy or anything, but we could do what we want. Now my main concern, too: Will I outlive my money?"
Female, Marital-Change Group in Chicago, IL

"I was not, because I was 19 when I started with Southwestern Bell; always had a paycheck. And when I stepped out, of course, I had no idea. Way far away from Social Security, Medicare, or anything like that. It was just a leap of faith."
Female, Low-Asset Group in Dallas, TX

Appendix B: Results Are Very Different by Income Level

The samples used in the 2015 Society of Actuaries post-retirement risk survey are large enough so that results can be reviewed for both retirees and pre-retirees by income. The findings show that the lower-income group is much more concerned about many risks and uses different strategies to manage risk. The lower-income group has much less discretionary income, and many have a very small pool of assets. They are likely to be largely dependent on government programs during retirement. They have far fewer choices during retirement.

Reasons for Working Longer Than Preferred

Lower-income pre-retirees and retirees are much more likely to say the reason they will work or did work longer than preferred was that they did not have enough money to retire (Table B1). Among pre-retirees expecting to work longer than preferred, 83 percent of those earning less than $50,000 per year say this is a reason they may work longer, compared with 57 percent of pre-retirees earning more than $100,000. Similarly, among retirees who worked longer than preferred, 55 percent of those with household incomes of less than $35,000 per year and 28 percent of those with household incomes of less than $75,000 per year said they did not have enough money to retire. Working longer is a good way to improve financial status.

Table B1. Reasons Given for Working Longer Than Preferred, by Retirement Status and Income

Major Reason	Percent of Respondents					
	Pre-retirees			Retirees		
	<$50K (*n* = 125)	$50K–$99K (*n* = 160)	$100K+ (*n* = 121)	<$35K (*n* = 52)	$35K–$74K (*n* = 73)	$75+ (*n* = 48)
	(a)	(b)	(c)	(a)	(b)	(c)
Wanting to continue building up your assets to ensure your financial security in retirement	60	76[a]	70	31	58[a]	63[a]
Not having enough money to retire	83[c]	75[c]	57	55[c]	30	28
Wanting the health benefits provided by your employer	38	49	59	24	45[a]	29
Finding yourself unexpectedly reluctant to retire	—	—	—	13	12	3
Receiving an unexpected job opportunity	--	--	--	5	2	4

Note: Letters in superscript indicate meaningful differences between income subgroups of pre-retirees or retirees. For example, a superscript *a* indicates that the number is meaningfully higher than the corresponding number in column (a). Comparisons are not made between pre-retiree subgroups and retiree subgroups.

Source: SOA (2016).

Risk Preferences Vary by Income Level

In the review of post-retirement risks, the survey findings show that concerns are higher at lower income levels for almost all risks. Table B2 shows results for a few risks.

Table B2. Respondents Rating Themselves Very or Somewhat Concerned About Given Risks

Post-Retirement Risks	Percent of Respondents					
	Pre-retirees			Retirees		
	<$50K (*n* = 370) (a)	$50K–$99K (*n* = 361) (b)	$100K+ (*n* = 304) (c)	<$35K (*n* = 375) (a)	$35K–$74K (*n* = 366) (b)	$75K+ (*n* = 264) (c)
Not having enough money to pay for a long stay in a nursing home or nursing care at home	76[c]	71[c]	60	63[c]	63[c]	42
The value of your savings and investments not keeping up with inflation	75[c]	73[c]	59	59[c]	54[c]	38
Not having enough money to pay for adequate health care	75[c]	70[c]	57	57[c]	47[c]	31
Becoming incapable of managing your finances	60[c]	55[c]	40	52	46	46
Your spouse or partner not being able to maintain the same standard of living after your death[1]	61[c]	52[c]	28	54[c]	42[c]	22
The equity you have in your home not being sufficient to support your retirement plans[2]	50[c]	42[c]	23	41[b,c]	28[c]	15
Being unable to leave money to your children or other heirs	41[c]	35	26	33[b,c]	23	17
Being a victim of a fraud or scam	36[b,c]	26	23	38[c]	32	25

[1]Pre-retiree sample sizes: For <$50,000, *n* = 133; for $50,000–$99,000, *n* = 256; for $100,000+, *n* = 265. Retiree sample sizes: For <$35,000, *n* = 110; for $35,000–$74,000, *n* = 263; for $75,000+, *n* = 225.
[2]Pre-retiree sample sizes: For <$50,000, *n* = 209; for $50,000–$99,000, *n* = 293; for $100,000+, *n* = 280. Retiree sample sizes: For <$35,000, *n* = 228; for $35,000–$74,000, *n* = 326; for $75,000+, *n* = 248.
Note: Letters in superscript indicate meaningful differences between income subgroups of pre-retirees or retirees. For example, a superscript *a* indicates that the number is meaningfully higher than the corresponding number in column (a). Comparisons are not made between pre-retiree subgroups and retiree subgroups.
Source: SOA (2016).

Expected Impact of Inflation

There is also a big difference between income groups in the share of retirees who expect inflation to affect them a great deal. Lower-income retirees and pre-retirees are more likely to say inflation will affect them a great deal (Table B3). Among pre-retirees, 38 percent of those with household incomes of less than $50,000 per year expect inflation to affect them a great deal, compared with 19 percent of households with incomes of $100,000 a year or more. Among retirees, 31 percent with household incomes of less than $35,000 per year expect inflation to affect them a great deal, compared with 13 percent of households with incomes of $75,000 or over.

Table B3. Respondents' Expectations About the Impact of Inflation

Expected Degree of Impact	Percent of Respondents						
	Pre-retirees				Retirees		
	<$50K (*n* = 370)	$50K–$99K (*n* = 361)	$100K+ (*n* = 304)		<$35K (*n* = 375)	$35K–$74K (*n* = 366)	$75K+ (*n* = 264)
	(a)	(b)	(c)		(a)	(b)	(c)
A great deal	38[c]	30[c]	19		31[b,c]	21	13
Somewhat	41	49	52[a]		38	45	48
A little	14	17	23[a]		23	29	31
Not at all	1	1	0		2	2	2
Not sure	7	2	6		7	3	5

Note: Letters in superscript indicate meaningful differences between income subgroups of pre-retirees or retirees. For example, a superscript *a* indicates that the number is meaningfully higher than the corresponding number in column (a). Comparisons are not made between pre-retiree subgroups and retiree subgroups.
Source: SOA (2016).

Major long-term care needs requiring care in a paid facility are likely to create major problems for many retirees. For the lower-income retirees, such needs generally require spending down all assets and going on Medicaid.

Risk Management Strategies Also Differ by Income Level

Lower income retirees and pre-retirees rely on somewhat different risk management strategies (Table B4). Investment-related strategies are generally not applicable to them, or they are much less applicable. Likewise, these retirees and pre-retirees spend less on housing, and there is much less opportunity to reduce housing costs. In particular, they are more likely to try to manage risk by cutting back on spending. Correspondingly lower assets may explain why they do not report investing in stocks, moving to less risky investments, etc.

Table B4. Risk Management Strategies Planned (for Pre-retirees) or Used (Retirees)

Risk Management Strategies	Percent of Respondents					
	Pre-retirees			Retirees		
	<$50K (n = 370) (a)	$50K–$99K (n = 361) (b)	$100K+ (n = 304) (c)	<$35K (n = 375) (a)	$35K–$74K (n = 366) (b)	$75K+ (n = 264) (c)
Try to save as much money as possible	86	90%	95[a]	71	79	74
Eliminate all consumer debt	79	92[a]	93[a]	83	89	88
Cut back on spending	86[c]	82	77	84[c]	76[c]	62
Completely pay off mortgage	54	75[a]	81[a]	48	77[a]	75[a]
Work in retirement	70	69	65	30	32	26
Consult a financial professional for advice or guidance	44	61[a]	74[a,b]	30	53[a]	63[a]
Invest a portion of money in stocks or stock mutual funds	41	60[a]	75[a,b]	30	51[a]	76[a,b]
Move assets to less risky investments as you get older	39	53[a]	75[a,b]	30	53[a]	70[a,b]
Move to a smaller home or less expensive area	44	50	57[a]	47	43	49
Postpone taking Social Security	43	46	60[a,b]	11	26[a]	28[a]
Postpone retirement	53[c]	46	40	10	15	12
Buy a product or choose an employer plan option that will provide you with guaranteed income for life	32	32	35	13	27[a]	31[a]

Note: Letters in superscript indicate meaningful differences between income subgroups of pre-retirees or retirees. For example, a superscript *a* indicates that the number is meaningfully higher than the corresponding number in column (a). Comparisons are not made between pre-retiree subgroups and retiree subgroups.

Source: SOA (2016).

Likely Strategies if Running Out of Money

Lower-income retirees are more likely than others to say they would turn to friends, family and community agencies if they run out of money (Table B5). They are less likely to dip into money they might have left as a legacy (maybe they don't have such money) or to use the value of their home. Higher-income retirees are much more likely to say they will downsize their home, reduce expected legacies and use the value of their home. They also have opportunities related to investments.

Table B5. Respondents Rating Strategies Very or Somewhat Likely to Be Used if Money Is Running Out

Strategy for Money Running Out	Percent of Respondents						
	Pre-retirees				Retirees		
	<$50K (*n* = 370)	$50K–$99K (*n* = 361)	$100K+ (*n* = 304)		<$35K (*n* = 375)	$35K–$74K (*n* = 366)	$75K+ (*n* = 264)
	(a)	(b)	(c)		(a)	(b)	(c)
Reduce expenditures significantly	84	90	89		86	84	85
Try to return to work or increase the number of hours worked for pay	77	73	73		33	40	32
Downsize housing	53	66[a]	75[a]		51	56	62
Dip into money that otherwise would have been left to children or heirs	46	58[a]	66[a]		53	62	70[a]
Use home's value to help fund remaining retirement years	39	52[a]	61[a]		31	52[a]	55[a]
Get assistance from friends or community agencies	42[b,c]	21	14		36[b,c]	16	9
Get assistance from children or other family members	31[b,c]	21	18		28[b,c]	17	11

Note: Letters in superscript indicate meaningful differences between income subgroups of pre-retirees or retirees. For example, a superscript *a* indicates that the number is meaningfully higher than the corresponding number in column (a). Comparisons are not made between pre-retiree subgroups and retiree subgroups.

Source: SOA (2016).

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