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# 2013 SURVEY OF RETIREMENT RISKS AND THE PROCESS OF RETIREMENT: CONTINUED CHALLENGES AND OPPORTUNITIES TO HELP RETIREES

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Using the survey information: The complete survey report can be found at http://www.soa.org/research/research-projects/pension/research-post-retirement-needs-and-risks.aspx. A number of highlight reports focusing on particular areas of emphasis will be released throughout 2014 and made available on the SOA website.

The survey results were presented at the 2013 SOA annual meeting and in a recent webcast. The complete Powerpoint presentation summarizing the results with pertinent commentary is also available for downloading from the SOA website. Actuaries are encouraged to share results they find relevant with clients and use them to spur prudent action. Furthermore, readers of the report are welcome to use the results for their own presentations, of course, with proper attribution.

The results demonstrate that many workers and retirees need help in understanding and managing the risks of the post-retirement period, thereby justifying the investment of employers offering support in that regard. The findings also reveal the need for more planning and better use of planning tools, although  not specifically weighing in on whether or not planning tools are adequate to handle the post-retirement period.) In addition, the results may also help advisors and financial service companies identify important opportunities for their organizations.

For more than 15 years, the Society of Actuaries' (SOA) Committee on Post-Retirement Needs and Risks has focused on improving the future for retirees. The 2013 Risks and Process of Retirement Survey (the Survey) is the seventh biennial study of public perceptions related to such risks. The survey was conducted in mid-2013.

This article presents highlights of the findings from the 2013 Risks and Process of Retirement Survey. The study includes a combination of selected repeat questions and areas of emphasis suggested by the group overseeing the survey. Areas of emphasis in 2013 included phases of retirement (or changes encountered during retirement), personal risk management and differences by gender. The 2013 survey employed a different approach to gathering responses than in prior years (see below). As a result, direct comparisons to previous survey results should be considered carefully and in the context of the methodological change.

The Survey was designed to evaluate Americans' awareness of retirement risk, how their awareness has changed over time, and how these perceptions affect the management of their finances.

## SURVEY FINDINGS AND COMMENTARY

**The hierarchy of concerns found in this survey and the strategies for risk management are similar to those found in previous iterations of the study. There is a general consistency in what respondents say is most important and in how they manage risk.**

**Risks viewed as most important**: The retirement risk that most concerns both retirees and pre-retirees is keeping the value of their savings and investments up with inflation (77 percent of pre-retirees and 58 percent of retirees are very or somewhat concerned). Rounding out the top three concerns is having enough money to pay for adequate health care (73 percent and 46 percent) and long-term care (68 percent and 52 percent). Two-thirds of pre-retirees and four in ten retirees also express concern about the possibility of depleting their savings (66 percent and 41 percent) and maintaining a reasonable standard of living for the rest of their life (65 percent and 41 percent).

The series of post-retirement risk surveys has consistently found that the top three risk concerns are inflation, paying for health care costs, and paying for long-term care. Paying for health care costs is a greater concern than paying for long-term care. This is true even though Medicare pays for a substantial part of acute health care costs for Americans over age 65 and there is no parallel universal program to pay for long-term care. There is private insurance available to pay for long-term care, but the vast majority of older Americans have no such coverage. Significant changes in economic conditions appear to generate only a temporary change in levels of concern, if any at all.

THE THREE RISKS IN RETIREMENT OF MOST CONCERN ARE SAVINGS AND INVESTMENTS NOT KEEPING UP WITH INFLATION, THE COST OF HEALTH INSURANCE, AND THE COST OF LONG TERM CARE.

**Keeping results in perspective**: *Even though there are many risks that Americans face in retirement and even though retirees are often on their own in dealing with these risks, many people are not too concerned about some of them. A significant number of retirees may not be aware of all of the risks. For example, there seems to be little concern or awareness about the risk of fraud or a financial scam. However, the fallout from a financial scam involving identity theft, for instance, can be devastating. The Consumer Financial Protection Board offers a series of materials on scams.*

**Managing Risks:** As in previous iterations of the Risk Survey, both pre-retirees and retirees tend to focus on strategies of saving and spending to manage the risks associated with retirement. Almost all pre-retirees (95 percent) and retirees (92 percent) report they have already eliminated or plan to eliminate all of their consumer debt. Nine in ten pre-retirees (93 percent) and eight in ten retirees (81 percent) say they already have saved or plan to save as much as they can, while similar proportions have already cut back or plan to cut back on spending.

Pre-retirees and retirees are much less likely to turn to risk pooling strategies to manage retirement risks (other than health insurance). Half of pre-retirees (52 percent) and one-quarter of retirees (23 percent) indicate they plan to or have already postponed taking Social Security. Roughly one-third each report buying (or expecting to buy) an annuity or choosing an annuity option from an employer plan. There is relatively low interest in financial products for risk management except for health insurance (including Medicare supplements).

The 2013 survey included a new question to find out how respondents would react if they were running out of money. Reducing expenditures significantly was the top result with 90 percent of retirees and 88 percent of pre-retirees indicating that they would do this. Work was a major area of focus with 76 percent of pre-retirees and 45 percent of retirees indicating that they would either try to return to work or increase the number of hours they were working. Downsizing housing was also a major area of focus with 74 percent of pre-retirees and 63 percent of retirees choosing this option. Housing is a major area of expenditure, but some may have already downsized. These responses were in sharp contrast to the number who indicated that they would get help from family members, friends or communities. The vast majority did not expect to get such help. Fewer than 30 percent expected to get help from children or family members, and an even smaller group expected to get help from friends or community agencies.

The 2013 survey included new questions to understand planning for what happens in the event of widowhood, and what is important to address. It also included new questions about planning for specific situations in widowhood such as having adequate assets and income, ability to manage day-to-day finances, suitable housing, investment management and estate planning issues and others. As with other questions, these questions indicate gaps in planning and an opportunity to help. There is a role for dealing with these planning gaps for actuaries, financial planners, plan sponsors and financial services companies. Actuaries can help their clients through work on the structure of the programs that they are working on and through encouraging more education and communication about them. Program structure includes plan designs and the structure of choices and how they are encouraged. For example, a plan may include a death benefit or not and it can vary in size. Several levels of benefit might be offered. The automatic choice may be no benefit, or one of the choices. The messaging on the choices can be tailored to encourage or nudge people in various directions. Communications from any of these parties can stress the likelihood that one spouse will die and the issues confronting the survivor. These are just a few examples of how various parties can help.

**Keeping results in perspective:** *Many people do not have enough financial assets at time of retirement and during retirement to effectively use risk pooling strategies. An emergency fund is a first priority. Recent focus group results indicated that many of the resource-constrained retirees in the focus groups preferred to hold on to assets, making them available as an emergency fund. They tried not to spend down their assets.*

**Overall results**: Overall, there is much consistency in the results of this work, and there are some main conclusions that have emerged:

- Pre-retiree expectations often do not line up well with the actual experiences of retirees. This is true with regard to retirement age, expectation of working in retirement and other areas. There is an opportunity to provide more information to people and enable them to have more accurate expectations. In each area where there are expectations that are different from reality, there is a need for information and a program to deliver it. There is a role for actuaries, advisors and plan sponsors in doing this. In addition, there is a potential role for various parties to change the situation. For example, many more people expect to work in retirement. To address this issue, the actuary may ask why, and what should be changed? Perhaps it is the expectation about working or perhaps it is the difficulty of working. If it is the difficulty of working, actions such as coaching programs or new jobs options could help. There is a role for the actuary in helping to establish the reason for the gap between expectations and reality, and there may be a role in trying to help bring about change.

- Inflation, health care and long-term care consistently are among the risks retirees and pre-retirees are most concerned about. There are several risks which the Project Oversight Group views as important but retirees show little concern about them.

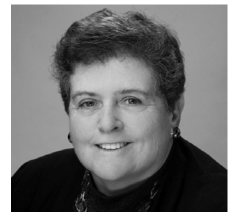
- Pre-retirees are often more concerned than retirees.

- Workers nearing retirement today have not really adapted well to the shift to DC plans.

**Retirement timing:** People actually retire at a much earlier age than people say they want to retire. In the 2013 study, the median age at which people retired was 58 compared to 65 as the median age when people said they want to retire. This is not surprising when involuntary and "pushed" retirements are considered.

**Planning as one nears or enters retirement:** Planning tends to be cash flow based—people make decisions based on what they are currently spending and the income they expect to receive. Many do not do more sophisticated longerterm planning. Planning horizons are consistently inadequate to cover the period of retirement.

**Working during retirement**: Working longer is an important strategy, but many more people say they want to do this than actually do work in retirement.

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**Keeping results in perspective:** *Many people are reaching retirement age today without adequate preparation for what faces them. There are two different paths for dealing with this—help people make better decisions and be better prepared, or structure systems to be less dependent on individual decisions.*

*It seems unlikely that there will be much improvement in decision making, so default options and plans that work without individual action continue to be very important.*

**Researcher and methodology**

The study and the six prior studies were conducted on the SOA's behalf by Mathew Greenwald and Associates, Inc. The 2013 study was conducted through an online survey instrument and the prior six studies were conducted by telephone interviews. The survey was preceded earlier in 2013 by a series of eight focus groups, which probed participants on their decision process for retiring and their views on managing assets after retirement. A separate article on the focus groups was included in the last *Pension Section News*.

As part of the survey, 2,000 adults ages 45 to 80 (1,000 retirees and 1,000 pre-retirees) were interviewed in August 2013. An additional 200 interviews were collected among retired widows. Individuals were selected for participation using Research Now's nationwide online consumer panel. The panel was selected after consultation with the research firm. The firm previously used this particular panel and obtained results that met their scientific standards. The PRNR Committee decided to switch to the online survey instrument in order to probe a larger sample, provide for more in-depth data analysis, and address the difficulties of relying on telephone surveys in today's shifting communications environment. More people are switching to using only cell phones and many are reluctant to consider participating in survey telephone calls, making it more difficult and expensive to do surveys by landline phones. Two cautions are needed in working with the 2013 results: although some of the questions are very similar to prior questions, comparisons of direct numerical results should be avoided as the methodology affects responses somewhat, and samples are not random with online surveys.

Survey responses from current retirees and those not yet retired (referred to in these reports as "pre-retirees") are analyzed separately. No effort has been made to oversample individuals with high levels of assets and do not provide specific insights concerning high-net-worth individuals. Only 5 percent of pre-retirees and 12 percent of retirees report having investable assets of $1 million or more.

*Anna Rappaport, Carol Bogosian and Cindy Levering work together on the team which oversees the Risk Survey and other work of the Committee on Post-Retirement Needs and Risks. Carol currently serves on the Society of Actuaries Pension Section Council. Cindy is former chair of the Pension Section Research Team. Anna chairs the Committee on Post-Retirement Needs and Risks. All three of them were previously retirement benefit consultants with major consulting firms and have been very active in Society of Actuaries work.* ■