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ADDRESSING POST-RETIREMENT RISKS

By Anna M. Rappaport

The Committee on Post–Retirement Needs and Risks (CPRNR) has been working to address post–retirement risk issues for about 15 years. I have been involved with this work for the entire period. This column will bring together my personal perspectives about the work with a report about some of our recent and current work.

While our work includes a number of different studies, there are some overall themes that are repeatedly reinforced. Reports and work from the committee are mentioned in this discussion. All of these reports can be found on the [CPRNR website](#). Some of the themes that seem very important to me are:

- There are significant gaps in personal planning and knowledge about the post–retirement period. This does not seem to change very much over time even though there have been very substantial changes in the structure of retirement programs, with many fewer people accruing benefits in traditional defined benefit (DB) plans today than 15 years ago.
- On the surface, education sounds like the best way to address these knowledge gaps. But in reality, we have found that education alone is not enough. Unless people are motivated, education may improve knowledge, but there is often no resulting action. Defined contribution (DC) programs are increasingly being structured with defaults and automatic features so that people who do not act are enrolled, saving, and investing.
- The structure of personal plans in the distribution period was not a topic often heard about 15 years ago, but it is getting a lot of attention today as the wave of Baby Boomers retire. This is a major focus of the Call for Papers looking at the changing

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retirement landscape. These papers have been submitted, and they will be published in an on-line monograph this year. Some of them will also be presented at the 2011 SOA annual meeting. On Wednesday, October 19, there will be a three session mini-seminar highlighting several of the papers.

- Many people do not plan for a long enough post-retirement period. This was addressed in the 2009 Post-Retirement Risk Survey and in the report *Key Findings and Issues—Personal Planning and the Process of Risk Management*. Some do not plan at all. It appears that many people do not think through the consequences of needing to replace a paycheck over many years.
- Middle class Americans (those in the 25 percent to 85 percent by wealth) ages 55–64 have about 70 percent of their assets (not including the value of Social Security and DB pensions) in non-financial assets. For most of them, this means their house is worth a great deal more than their financial savings for retirement. The study, *Segmenting the Middle Market*, executed by Milliman for the SOA develops this information. Phase 1 develops the segments and Phase 2 focuses on planning profiles and possible solutions for the identified profiles. These findings leave open some major questions: Should people save more for retirement and invest less in their houses? How do you evaluate this question? When do people tap into home equity for retirement? What methods are there for doing this? The CPRNR sponsored a Call for Papers to look at the link between housing and retirement, and those papers are published in an on-line monograph on the [SOA website](#).
- Social Security is an extremely important component of the financial security package for most Americans. It is almost the entire package for those at lower incomes, and plays a major role for middle income Americans. In contrast, it is a small part of the picture for most senior decision makers. Americans generally underestimate the importance and value of their Social Security benefits before they reach retirement age. This misperception is one of several common misperceptions, believed by people who are planning for retirement. Our report, *Public Misperceptions about Retirement Security*, is several years old, but the issues have not declined in importance.
- The risks people face are numerous, complex and interacting. Experts do not agree about the best ways to manage them. There are financial products that address some but not all of the risks, but most are focused on one risk or, at best, a combination of two or three risks. *Managing Post-Retirement Risks* provides an

identification and discussion of the risks and approaches to managing them. The third edition of *Managing Post-Retirement Risks* will be published later this year.

- The system as it exists today requires individuals to make a number of decisions as they move into and plan for retirement. Retirement planning software enables individuals to do financial projections and build a plan. But such software may be primarily focused on pre-retirement saving and investments and it often does not deal with some of the most important post-retirement planning issues for Middle Americans. *Segmenting the Middle Market* looks at segments of Middle Americans and helps to identify the key issues. Two studies of retirement planning software offer an examination of how well a sample of such systems address common post-retirement risk issues. Both studies found significant gaps in the analysis offered to the user, and while the studies are several years apart, many of the gaps found in the first study had not been addressed in the second.
- After determining that the software left many gaps, and that people need to make decisions in areas where there are trade-offs and choices, in addition to misunderstandings, the CPRNR decided to undertake a project focused on decisions related to retirement. A series of 11 decision briefs is currently under development, and they will be published electronically. The decision briefs are focused on helping people identify the key issues and trade-offs related to the issues. They provide generic information on approaches to managing the risk or handling the decision, and considerations. While they do not identify specific approaches, the topics will include when to retire, when to claim social security, housing, long-term care, and others. Watch for these briefs later this year.

THE POST-RETIREMENT RISK SURVEY SERIES

The major on-going study of the CPRNR is a biannual survey of the American public to learn about their views on post-retirement risks. Retirement Risk Surveys have been conducted in 2001, 2003, 2005, 2007, and 2009. The risk surveys are an SOA sponsored project working with Mathew Greenwald & Associates and EBRI. The 2011 survey is currently underway. Each survey combines some repeated questions that form a baseline, and areas of emphasis which will be reported in specific issues based on shorter reports. The three areas of emphasis for 2011 are work and retirement (including unemployment and phased retirement), longevity, and the impact of the economic conditions on planning (aftermath of the financial crisis). Each of these three topics builds on work done earlier. The 2005 reports included a report on longevity and one on

phased retirement and planning for the unexpected. The 2009 survey series included a look at the economic downturn and how it had affected the respondents. This is being revisited in 2011 because the events were too recent at the time of the 2009 survey. Work in retirement is being revisited because there is so much recognition of its importance and much may have changed, but we really do not know. Longevity is being revisited because there seems to be growing interest in the topic, there are major gaps in knowledge, and it is central to what actuaries do. The survey results will be presented at the 2011 SOA annual meeting.

Some of the most troubling past findings are that people plan for too short a time, many people do not understand the financial impact on the survivor of the death of the first spouse, and do not understand the consequences and implications of working longer.

The studies, which include retirees and pre-retirees (age 45 and older), have repeatedly shown that the retirees retired much earlier than the pre-retirees expect to retire (retirement in this context is defined as retirement from your primary occupation). Other studies (such as the EBRI Retirement Confidence study) indicate that more than four in ten retirees retired before planned. Loss of job, poor health, and family members needing care are major reasons for retiring before planned. We have also asked people if they expect to work during retirement and the majority do. Our impression is that more people say they intend to work during retirement than actually do. This issue will be explored in more depth in the 2011 survey.

NEW PROJECTS IN 2011

Each year in its planning process, the committee identifies some areas to develop into possible projects. Some of these ideas become projects but others do not. Generally, we have done better at identifying the problems and where the public stands on them, than on solutions that work. Part of the difficulty is that experts do not agree on solutions for Middle Americans, and many potential solutions involve trade-offs and/or cost more money than is available. The ideas being explored in 2011 are solutions for the middle market, and understanding how and why people run out of money. *Segmenting the Middle Market, Part II* was research that offered a first step to such solutions, but more work needs to be done. The 2011 risk survey is well underway.

Another new project is a comparison of U.S. and Canadian data. The Canadian Institute of Actuaries did a risk survey using a questionnaire largely similar to the SOA *2009 Retirement Risk Survey*. A group from the United States and Canada is working to compare the results and environment, and then publish a report.

We have completed several projects to understand how people are investing retirement assets, e.g., what has happened with lump sums in DC plans. In 2007–2009, the SOA did reports in a joint project with LIMRA and INFRE on how individuals with significant 401(k) assets had chosen to invest them. The first report was titled *Will Assets Last a Lifetime?*, and the 2009 report was titled *What a Difference a Year Makes*. The same survey panel was used for both studies. We are going back to do a third round, using the same survey panel as the first two, and the abbreviated questionnaire from the second round. Prior to the surveys, the basic ideas were tested in focus groups, *Spending and Investing in Retirement—Is there a Strategy?* The report from these focus groups includes quotes from participants that help bring the issues alive.

OTHER SOA GROUPS ARE USING THIS WORK

Other SOA groups are also building on the work of the CPRNR. A research project *Implications of the Perceptions of Post Retirement Risk for the Life Insurance Industry: Inside Track Marketing Opportunity, But Requiring Focused Retooling* builds on our work and brings it to financial services industry specialists, but with much more work included that is focused on the needs of that industry.

APPROACHES THAT ARE USED FOR OUR WORK

The CPRNR projects include surveys of the public, focus groups, research projects conducted by an outside researcher, papers written by a group of volunteers working together, and responses to paper calls. Some projects start with a literature search. All are multi-disciplinary. Many projects involve partners, which can be outside organizations, or other SOA groups. Volunteers—both actuaries and many other professionals—are vital to our work. SOA staff is vital as well, and several staff members support us as needed, depending on the project. By having several different approaches, the CPRNR can choose the one best suited to each project. Many thanks are due to the wonderful volunteers who devote a great deal of time and energy to our projects and to the SOA staff who support us.

USING OUR WORK AND SPREADING THE MESSAGE

Findings of this research are on the SOA website and are presented at SOA meetings, in SOA webcasts and in other venues. Findings have been included in many newspaper and magazine articles, and they are sometimes included in papers. The CPRNR is very fortunate to have been included with the groups whose work has been identified for highlighting in press releases and media efforts. We work with the American Academy of Actuaries to bring the relevant messages to policymakers. Members are encouraged to use highlights or specific issues in their client work and in presentations. We believe our findings and research are helpful to

financial service organizations, sponsors of employee benefit plans, individuals planning their own lives, and to the public in trying to understand the key issues. There is a single sheet handout, *Summary Handout of Recent Retirement Research*, on the website that provides very short summaries of some of the key work of the CPRNR. This sheet is available to be used as a handout at meetings for people who are speaking. On issues covered in previous presentations, the SOA may be able to assist with materials for presenting findings.

ABOUT THE AUTHOR

Anna Rappaport is an actuary. After retiring from a career as a pension consultant with Mercer, she started Anna Rappaport Consulting. She chairs the Society of Actuaries Committee on Post-Retirement Needs and Risks. She is a past-president of the Society of Actuaries.

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