Article from:

Pension Section News

January 2013 – Issue 82

THE DECISION TO RETIRE AND POST-RETIREMENT FINANCIAL STRATEGIES

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The Society of Actuaries Committee on Post-Retirement Needs and Risks recently conducted focus groups of people who have retired voluntarily in the last ten years. The report is titled "The Decision to Retire and Post-Retirement Financial Strategies" and it is available at *http://www.soa.org/Research/Research-Projects/Pension/The-Decision-to-Retire.aspx*. The purpose of this study was to gain understanding of how people make decisions about when to retire and about managing financial risks in retirement. This is an important topic because whether people have sufficient assets and income for retirement is very dependent on when they decide to retire and how they expect to live during retirement. In addition, certain financial shocks will continue to occur in retirement, much like they did during a person's working lifetime. There are also many non-financial decisions involved in the process.

Focus group research is not based on random sampling and provides no quantitative results. Rather, it collects qualitative data that in this study offers insights into the thinking and the rationale that goes into the decisions about when and under what circumstances to retire and decisions on how to manage during retirement. It supplements quantitative research, and can also help inform the issues for such research. Eight focus groups of financially resource constrained retirees who had retired voluntarily were interviewed. Groups were separated by asset level ($50,000 - $150,000 and $200,000 - $400,000), sex and geographical locations. A comparison of the experiences of recent (0-5 years) retirees versus more long-term (5-10 years) retirees was also examined.

The report offers many quotes from retirees and a chance to "give a face" to much of what we say about retirement. I had the opportunity to observe the two focus groups that were held in Baltimore and found them to be very interesting.

While many of the issues around retirement do not seem to change much, we observed two main findings that we felt offered new insights:

- Many voluntary retirement decisions were the result of a push.
- There were very big differences in experiences and perceptions by gender.

Exiting the labor force: While most of the participants said they had retired voluntarily when they were recruited for the focus group, it became apparent as they shared their experiences that a lot of them had been pushed into retirement. Few retired to meet their dreams, pursue a hobby or start a business. However, most had adjusted to retirement and were enjoying frequent travel. Reasons mentioned for retiring were that the work became too difficult, the workplace became less pleasant, health challenges, or the need to provide care-giving. They described workplace difficulties such as jobs that were physically difficult, messages from their employer that they perceived as "encouraging" them to retire, and challenges in working with younger supervisors, among others. For example, participants said:

- *"When the company reorganized and showed that they weren't interested in people my age and opportunities came and went. Opportunities came to younger people and to me it was a sign that you'd better start thinking about it." Female, Chicago*
- *"But the last four years, I used to run big presses, and it was getting too much for my knees physically. If you have an office job, you can probably work until you're 70-75. But you can't do manual work like that." Male, Phoenix*

Typically, the retirement decision is assumed to consist of a clear distinction between voluntary and involuntary retirement. The stories in these focus groups indicate that much so-called voluntary retirement is actually the result of a "push," and that the distinction between voluntary and involuntary retirement is not necessarily clear-cut for middle-income retirees. Results may or may not be different for retirees with higher income and asset levels. The research team believes that the lack of a clear distinction between voluntary and involuntary retirement is a new finding, and one that should be of interest to human resource professionals. It also doesn't seem to be a direct result of the recession since some of the focus group participants had been retired for 5-10 years.

Differences by gender: The research team decided to separate the focus groups by gender which turned out to provide more striking insights than we anticipated. Actuaries have long known about longevity differences, differences in earnings and family status between men and women. While we have known that typical roles in the family are different, the focus groups offered new insights. The women had different motivations for retirement and seemed to have very different perceptions and confidence about how well off they were in retirement. Three of the actuaries who observed the focus groups from outside of the room provided some comments about the differences:

Actuary 1: "I noticed the women were more involved in care-giving roles. Some had left their jobs for care-giving and others had taken on various care-giving roles since retiring. Of more concern, the women were using their financial resources to help in the care-giving duties. One woman recognized she did not have the resources to continue and expressed some regret for her past decisions.

Contrasted to the women, few men left their jobs for care-giving duties. In general, they did not express concerns and did not expect to take on care-giving roles. A few men had significant care-giving roles for their wives who had a debilitating disease."

Actuary 2: "Most of the men in the Baltimore group said they did not think much at all about life expectancy since there was no use in trying to predict it. About half the women said they had thought about it and those that hadn't felt like they should.

Also, some of the men had trouble keeping busy and filling their days but that didn't come across from the women."

Actuary 3: "Observing the two Chicago focus groups, I immediately noticed a change in tone and demeanor of the groups. The atmosphere in the men's focus group was fairly easygoing, while the discussion became much more serious in the women's group. The difference was striking."

This research strongly indicates significant differences between men and women in the concerns and feelings about retirement, views of care-giving obligations and family relationships, level of optimism, and vulnerability and planning behavior. The men appear optimistic, confident and more likely than women to think they will be able to adapt to any financial situation that arises. Women seemed much more concerned about financial security than men and more concerned about running out of assets, needing long-term care, being a burden on their children, and impacting the financial success of their children. Women appeared more sociable than men and more family oriented. While it has long been known that there are differences in retirement situations by sex, this report highlights areas of difference not often considered. However, the concerns of women seem appropriate given their longer average life expectancy and the general tendency of women to marry older men. This means they could outlive their spouse by several years and hence justify their concern about financial security in general and the need for receiving long-term care in particular.

Social Security claiming decisions: For these individuals, Social Security is a very important part of their income. Note one of our criterion for the focus groups was that they not have more than $2,500 a month of income from a defined benefit plan or rental income. However, most of the participants claimed Social Security at age 62, and they commonly did a simplified type of "break-even" analysis. This frames the claiming decision in terms of how long people must live to "break-even" if they claim later. Such an analysis generally ignores longevity risk, inflation and spousal benefits and can result in an adverse result for people who live longer than the actuarial tables indicated as their expected average lifetime. Employers can help by encouraging people to evaluate their options more carefully.

Financial management in retirement:

"My main concern is the expenses I have no control over. In the past year, my long-term care insurance, my taxes, my homeowners have all gone up. I can't do anything about that." Male, Chicago

Many of the focus group participants showed common behaviors and actions:

- Participants were very aware of their regular income and expenses, and they managed expenses based on their estimated daily expenses. They are very resilient and adaptable with regard to spending decisions and reduce spending when needed. They are accustomed to making trade-offs when necessary.
- The major strategy for managing their assets is to preserve them. Most did not have a plan to systematically withdraw assets from their retirement accounts. Those who had reached age 70½ use the legally mandated Required Minimum Distribution rules to withdraw funds from their Individual Retirement Accounts. They did not necessarily think much about volatility and some had more assets now than when they retired.
- Some manage their assets using "dual asset accounts" and have a "slush fund" for discretionary spending. The balance in the second fund lets them know how much money they can spend on travel and other discretionary items.
- Most own their homes, have paid off their mortgage, and appear to be very careful about debt. They had no interest in using a loan or reverse mortgage to access the equity in their home. It does not appear that they have large credit card balances. The findings about debt are different from other findings that indicate that many people are entering n with debt. They also generally plan to stay in their homes, but some plan to downsize.
- The focus groups offered no evidence of retirees spending significant parts

of their assets on luxury items, such as boats or RVs. The retirees do make choices about current spending and a number report reducing the amount they travel and foregoing other discretionary spending when necessary. We felt this was encouraging news in light of a lot of "horror stories" we sometimes hear.

Planning: This research, like other SOA research, showed a relatively short planning horizon and very little longer term planning. Employers have an opportunity to help employees and retirees with planning tools and support. We learned in the study that:

- Planning is focused on expected cash flow in the current year. Participants generally did not consider inflation nor did they factor it into their plans.

- As shown in other research, there are gaps in knowledge about longevity as evidenced by their short-term planning horizons. They didn't think much about their life expectancy but acknowledged that their health was the biggest threat to their security.

- The focus group members for the most part do not explicitly plan for shocks and longer term risks. Their risk management strategies appear to be asset preservation, limiting debt, and controlling spending. They do not focus on financial risk management products, and many are not well prepared to deal with substantial shocks. A few had long-term care insurance, but there is no information about its adequacy.

- Many of the focus group members have not made longer-term calculations to manage their retirement. Some use investment brokers, financial planners or advisors, and those who do use professional support reported getting value from the help they received. They did not make a clear distinction between getting advice from a financial planner versus an investment advisor/broker.

Overall satisfaction: Most of the respondents were generally satisfied with the retirement decisions they made. Some would have preferred to work longer. There was significant variation with how satisfied they were with their life in retirement. Some were lonely, particularly widows. However, they found a value in freedom and stated that their decisions were based on more than just finances. They tended to think more about the quality than the quantity of their retirement years.

Summary: The Focus Groups paint a picture of retirees who appear to be "resource-con-

"MY MAIN CONCERN IS THE EXPENSES I HAVE NO CONTROL OVER. IN THE PAST YEAR, MY LONG-TERM CARE INSURANCE, MY TAXES, MY HOMEOWNERS HAVE ALL GONE UP. I CAN'T DO ANYTHING ABOUT THAT." MALE, CHICAGO strained" as careful and conservative financial managers in the short term with a focus on current cash flows rather than on shocks and changes over time. They are quite flexible and able to reduce current spending to match their current income. They are reluctant to draw down assets, saving them for emergencies, shocks or an inheritance. They limit what they spend for travel and meeting their dreams. However, they do not plan for significant inflation, substantial long-term care needs, and large unexpected medical expenses. Very few are using insurance products to manage these risks. While some get formal financial advice, many manage their assets on their own.

What does this mean for you?: Here are some possible ideas about how we as actuaries might use this information in working with plan sponsors, individuals, advisors and financial service companies:

- Many of the quotes in the report could be useful for including in client presentations, etc. in terms of bringing retirement issues to life.
- Employers may want to rethink such things as job options and planning tools, with an eye towards providing better support for longer-term planning.
- Financial service companies that offer retirement education with their products may consider different types of messaging tailored by gender.
- Those preparing individual statements may want to look at their content, making sure to include such things as illustrations of multiple retirement ages for some or all employees.
- Advisors should be well-versed in Social Security claiming strategies for both individuals and spouses so they can advise their clients appropriately. A helpful resource for individuals, employers and advisors is our Decision Brief on Social Security claiming which can be found at *http://www.soa.org/research/research-projects/pension/research-managing-retirement-decisions.aspx*.
- Individuals and advisors should be prepared if retirement comes sooner than expected (we also have a Decision Brief on that topic at the website shown above).
- Insurance companies may want to design more customized features in their new and existing products.

We would be interested in other ideas you may have so I encourage you to email Steve Siegel at ssiegel@soa.org with your suggestions. You could also use the SOA Pension Section LinkedIn group if you wish to share your ideas more broadly. ■