SOCIETY OF ACTUARIES®

Aging and Retirement

Impact of COVID-19 on Retirement Risks

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Impact of COVID-19 on Retirement Risks

Section 1: Introduction

As part of its ongoing effort to provide its stakeholders with useful information on COVID-19, the Society of Actuaries (SOA) recently launched an online conversation about the impact of COVID-19 on retirement risks. To facilitate the conversation, the SOA utilized the listserv it maintains for its Committee on Post-Retirement Needs and Risks, and Aging and Retirement Strategic Research Program. The listserv comprises professionals involved in retirement security issues from a wide variety of disciplines and perspectives. They include actuaries, economists, attorneys, financial advisers, benefit plan sponsors, demographers, academics, and policy researchers, among others. Participants also represent a diverse mix of experts from the public and private sectors (both profit and not-for-profit), and retirees. The majority are based in North America, with others from around the world.

This issue brief summarizes the thoughts and questions raised during the conversation about the potential impact of COVID-19 on retirement risks and planning, and it provides an overall background on these issues. The primary purpose of this brief is to stimulate further thinking and inform readers about how COVID-19 may reshape retirement in the future. The authors wish to thank the conversation participants for their insightful comments and ongoing support.

The context for this discussion is not only the emergence of COVID-19 but also the environment that existed before COVID-19. Some key points about that environment include the aging population, the growing presence of the gig economy, the trend away from defined benefit pension plans so that most active employee benefit retirement programs are defined contribution plans, and a major decline in employer-sponsored retiree medical plans. In addition, many Americans do not have adequate emergency funds or retirement savings. Social Security is the primary source of retirement income for many retired Americans and the only source for many others. While many employees have tried to work longer, there have been significant employment challenges for many who are age 50 and over.

This brief is divided by the major topics that were raised and provides a synthesis of the discussion. We plan to continue this research and provide additional briefs exploring individual topics in greater depth.

The online conversation was conducted in mid-March prior to the passage of the CARES Act. The report was written at the end of March. The crisis is still evolving, and perspectives with regard to these issues may change.

Section 2: The Employer, 401(k) and Other Benefits

For many Americans, employer-sponsored 401(k) and similar defined contribution plans are their primary retirement savings—and in some cases, their primary savings for all purposes. Some plans include loan and hardship withdrawal provisions to make these savings available for earlier emergencies. The COVID-19 virus and related economic developments create challenges for employees; employers and benefit plans can help with these.

Insights from the conversation include the following points:

- Employers may be the best source of help for some employees. This is a time for employees to check in and revisit their financial strategies to see if they are planning wisely. Employees are interested in understanding whether they should continue to participate in their plans as they are or make changes.

Employers can help employees understand the issues, highlight what is available through their programs and benefits, and provide guidance on their options and on ways to utilize their benefit plans and other employer-sponsored resources.

- Employees are expressing concern about how to manage their 401(k) plan investments, and those nearing retirement are wondering if they need to work longer. Some households are financially fragile and have major problems with debt. If employees need to borrow and can borrow from a 401(k), it may be better than borrowing through a credit card or other higher-interest loan. Plan loans should be thought through carefully, including factors such as the requirements for repayment if employment terminates. Financial wellness programs offer access to resources to help employees look at their situation and consider their options.

- Hardship withdrawals and plan loans are likely to increase.

- Health savings accounts (HSAs) should be reviewed to see if they are being used appropriately. There is evidence that many employees do not understand how to use HSAs.

- Some households may need to deplete their retirement savings to manage through the immediate period. There are tax penalties for doing so if distributions are made too early. There is some support for removing or liberalizing these penalties on a short-term basis. The CARES Act reduces the penalties for 2020 and specifically provides relief for employees whose employment was affected by COVID-19.

- The current situation reinforces the need for rational distribution strategies and for helping people think through their distribution options. One commenter suggested an installment payout as a distribution option. (The SOA has sponsored several research reports on distribution options in 401(k) plans.)

- Concerns have been expressed about whether or not a 401(k) plan offers sufficient retirement security, and this situation has again prompted those concerns.

- Litigation has been a major challenge for some benefit plan sponsors in the last few years. Results from the current period of economic turmoil may lead to more litigation.

- In a primarily defined contribution retirement savings environment, individual investment decisions are critical, but many workers lack investment confidence and knowledge to navigate the current market volatility. Default options, many of them target date funds, offer individuals a path toward decision making. It has been reported that a significant number of participants are choosing to move to risk-free investment choices after the market downturn, despite extremely low rates of return available.

Section 3: Distribution of Risk and Defined Benefit Plans

There has been a major decline in the use of defined benefit plans by employers. However, many retirees today and many more to come will receive benefits from these plans. Furthermore, many state and local government employees are covered by such plans and continue to accrue benefits. The investment volatility that has accompanied COVID-19 will likely create significant instability for defined benefit plans.

Here are some key points:

- There has been a large shift in risk to the individual over the last 30 years, as described in the book *The Great Risk Shift*, by Jacob Hacker. The shift away from defined benefit plans is part of this trend. COVID-19 raises societal questions on the consequences of gaps in retirement risk protection.

- Changes in market values may lead to significant increases in plan funding requirements and may lead to more distress and involuntary plan terminations, especially if the employer does not survive the economic downturn. This could place more strain on the Pension Benefit Guaranty Corporation (PBGC).

- There are concerns about plan insolvency in all sectors, most notably for multiemployer and public-sector plans, and whether retirees will lose benefits. Discussants wondered if there will be bailouts for such plans and the vehicles used to fund these benefits.

Section 4: Social Safety Net Programs

Social Security is the major source of regular income for many families and the only source of income for a substantial number. Claiming at a later age means a larger monthly income. COVID-19 serves to reinforce the importance of social safety net programs. The conversation also points to the observation that when people do not have any type of safety net, it can create risks for everyone.

These key points were raised in the conversation:

- Loss of income through job loss or reduction of hours may push people into claiming Social Security earlier.

- Concern was expressed that with the large amount of government spending and bailouts, there could be calls to reduce Social Security.

- For those who are eligible for Social Security and own a home but do not have much other retirement savings, the timing of Social Security claiming can make a substantial difference in how much retirement income they will have.

Section 5: Family

According to SOA research,[1] family help and support can be an important part of retirement security. In addition, helping other family members can be a source of additional expenses and activity during retirement. Providing resources for family members can involve major commitments. Further, the virus and associated stay-at-home orders can increase the need for family help to its older members when families may be experiencing many other strains. COVID-19 affects everyone, but seniors with compromised health are more likely than others to become seriously ill and possibly die if they contract it.

Participants in the conversation provided several insights:

- There will be an increased need to support family members who are more negatively impacted than other members. This will be particularly true for younger family members who have not had a chance to become financially established.

[1] The SOA has conducted studies that indicate that the family is very important to retirement security. These studies are summarized in the February 2020 SOA Report *Family Is Important to Retirement Security*, https://www.soa.org/globalassets/assets/files/resources/research-report/2020/family-retirement-security.pdf.

- Many of today's families are already affected by the rebound generation. COVID-19 career fallout will likely affect many extended families. Children just reaching adulthood now or who are not yet fully launched in careers may take longer to launch.

- Many retirees have more stable incomes than younger family members and will be making transfers to their children in an effort to share the burden brought on by the virus.

- Expect more multigenerational households. Older family members who are displaced may need to move in with children. Some family members are likely to need to move in temporarily with others in the family. This may cause strain on family relationships.

- Expect added stress on family members who are trying to help their parents and deal with their own issues at the same time. They may also be called on to help other family members. For many younger retirees, helping family may become a major activity in their retirement.

- As a precautionary measure, families with senior members are being discouraged from visiting them. In the case of persons in an assisted-living facility, continuing-care retirement community or nursing home, the facility's management may prohibit family members from visiting them.

- The inability of families to visit senior members has implications beyond loneliness and isolation. Family members often are advocates for the people they are helping. A recommendation that came up in our discussion is to set up a system for staying in contact by using phones or the internet and software such as Zoom, FaceTime or Skype.

- Multigenerational households living together may have challenging issues in protecting seniors (particularly those with chronic health conditions) from the virus.

Section 6: Financial Wellness and Personal Emergency Funds

As noted in Section 1, SOA and other research shows that many families have financial-wellness challenges with virtually no emergency funds and are managing paycheck to paycheck. COVID-19 creates severe financial stress for many of these households. Government assistance will provide partial and temporary assistance, but the long-term solution will depend on the extent of economic recovery.

SOA Generational Research on Consumer Financial Status

From previous research conducted by the SOA, it is apparent that many Americans were not well prepared for the sudden impact of COVID-19. In October 2018, the SOA's Aging and Retirement Strategic Research Program sponsored a survey that explored the financial perspectives of several generations (Millennials, Gen-X, Baby Boomers, and the Silent Generation), contrasting their views on a range of topics. Results from that survey indicated that many Americans are managing paycheck to paycheck, are not prepared to handle an unexpected expense and may depend on their retirement funds to tide them through. This can be quite perilous for many in normal times—even more so in times of crisis, like these.

Further conclusions from the survey were highlighted in a special brief called *Financial Fragility Across the Generations.* Results showed that about one in four Millennials and Gen-Xers are financially fragile, based on an index developed for the survey. The good news is that the proportion of those classified as highly financially fragile decreases for older generations.

Relevant issues discussed include the following:

- With the steep rise in unemployment because of COVID-19, especially in the lower-income service, travel and retail industries, many of the families affected by the virus will face very immediate challenges because of the lack of personal emergency funds. Prior research has already shown an extreme deficit in personal emergency funds for many.

- For those whose employment status does not change, their employer may be the best source of help. Some employers will offer a mix of benefits to help with physical, emotional and financial stress. This includes employee assistance programs (EAPs), health and financial wellness programs, and other benefits such as telemedicine. EAPs, in particular, provide help with issues including caregiving, mental health, and other short- and long-term challenges. For retirement, employers overall can be an important resource in helping employees on their path to retirement stay on track.

Section 7: Housing

As documented in SOA research,[2] for many middle-income Americans, the value of their home is far greater than the value of their retirement savings. In addition, housing is the largest item of expense in retirement, and many retirees are entering retirement with mortgage debt. Some housing is intertwined with care and support, and a variety of different types of housing options are available for seniors. COVID-19 creates a new set of housing challenges for many because of the need for isolation and staying at home. It also creates challenges with regard to the affordability of housing and the need to make appropriate housing decisions in retirement.

Key points include:

- The importance of housing wealth in retirement portfolios will likely increase for many people, but housing during this crisis may also lose much of its value. More people may be forced to consider how to integrate their housing wealth with retirement planning.

- With a greater need to use housing values to help support retirement, some retirees may be confronted with the choice of monetizing the value of their homes or accepting a significant drop in their retirement lifestyle. But this will depend to a significant extent on the value of their home in the eventual real estate marketplace after COVID-19. Generally, real estate markets differ by region in how well they recovered from the 2008 recession and how much housing values rebounded. Furthermore, a downturn in housing as a result of COVID-19 is likely to be unevenly distributed. Regions that are dependent on tourism and travel business may suffer larger downturns.

- Some people may wish to refinance their mortgages but find difficulty in meeting lender and other requirements. Retirees may decide to utilize reverse mortgages. Strategies using mortgages can help retirees avoid selling equities in a down market.

[2] *Segmenting the Middle Market*, a report sponsored by the SOA, illustrated the importance of home values to the financial status of retirees. Other SOA research has focused on the link between housing and quality of life, the link between housing and support, and the ongoing costs of housing. Housing was a major topic in the SOA's 2017 Retirement Risks Survey and the topic of an SOA Call for Papers in 2009.

Section 8: Financial Advisers and Information Sources

Prior SOA research has explored the role of advice in helping individuals plan and manage their finances. For many employees, their employer-sponsored benefits are the only source of outside advice. As mentioned earlier, COVID-19 has resulted in a great deal of investment volatility and in short-term unanticipated financial challenges. Many people are not sure where to turn for advice, and for those with a dedicated source of advice, this can be a critical time for guidance.

Key points include the following:

- Individuals need emotional as well as financial support and guidance. In addition to helping individuals with financial matters, some advisers are reaching out to their clients to provide social engagement and checking in on their overall wellness.
- Financial firms and advisers may be extremely busy at this time, not only because of anxious investment trading, but also because continuous communication to clients is an important component of their services.
- Online advising, remote working and fintech have become more prominent in recent years. The current situation could drive more adoption and greater use of these platforms.
- There is significant concern about an overload of information—much of it contradictory—and general misinformation. This can lead to decision-making paralysis and confusion. Fraud has also become a major concern, with many scammers taking advantage of the crisis.

Section 9: Health Care and Long-Term Care

COVID-19 is, first and foremost, a health care crisis. However, the expected costs and utilization are contributing to a rapidly changing economic crisis. Access to health care services and maintaining health are important components for a fulfilling retirement.

Here are some key issues discussed:

- COVID-19 is driving a major need for health care insurance protection. Medicare provides coverage for seniors, but accessible and affordable coverage for others is clearly important at this time. To deal with high-level demand, Medicare is relaxing some of it rules in the wake of COVID-19.
- Even for those who have health insurance, COVID-19 treatment may be expensive, particularly if it requires extended hospital care. This is a greater issue for retirees who are not yet Medicare eligible.
- As the pandemic intensifies, availability of health care services can become extremely strained.
- For some, there will be an unfortunate trade-off between seeking health care services and maintaining their homes.
- Individuals considering health savings accounts (HSAs) during this economic uncertainty should assess whether the best option for them is to have the tax advantages of these accounts along with having a high-deductible health plan, versus other forms of coverage. HSAs can be integrated with both health care and retirement coverage. There is evidence that employees do not always understand how to use these accounts because of their relative complexity.

- The Families First Coronavirus Response Act requires most private health plans to cover testing for the coronavirus and to provide for no cost sharing during the current emergency period. Some states have adopted similar requirements for insurers they regulate, and many private insurance companies plan to voluntarily expand coverage for testing and treatment.

- Many long-term care facilities have needed to isolate residents to combat the spread of COVID-19. This can eliminate personal contact with family and friends. For many, their family members serve as their advocate and decision maker on health care and financial decisions. In the case of residents with cognitive impairment and dementia, this situation can be particularly troublesome.

Section 10: Work and Retirement Ages

The SOA is currently developing several research efforts to explore work and retirement. As an example, the April 2020 issue of the SOA's *Retirement Section News* will contain an article on work at older ages. Each year that leaving the workforce is delayed is one year less of using retirement income and one year more for retirement savings to grow. COVID-19 has brought forth further interest in these job-related issues. Many workers nearing retirement have lost jobs or had their hours reduced significantly. This can have a substantial impact on retirement savings or the need to tap retirement savings early. The result can be a steep decline in available resources. All of these forces have an impact on retirement security.

Key points include the following:

- Many individuals nearing retirement (within five years) are concerned about whether they need to work longer.

- For older workers, an incidence of job loss may become permanent with no prospects for returning to the workforce. Others who have experienced previous work disruptions may find this time to be much worse and may have to contend with a general unavailability of work.

- As the gig economy grows and more senior workers participate in it, there will be increased recognition of the need for more financial security as a result of COVID-19. To address this, benefit solutions will become more and more of an immediate need.

- Being an independent worker can have distinct advantages and appeals to many professionals. However, difficult situations like COVID-19 can pose risks. Rather than having the support of an employer, an independent worker may be left to figure out alone how to contend with the risks of short- and long-term disability, loss of retirement savings, health care coverage and other issues.

- For many people, there is no clear distinction between work and retirement. As some gradually reduce their work in middle years, they may wish to relocate to more rural settings. Today's technology allows many to make such a move and still maintain the same career path. This may become a further trend, as it can be advantageous to live in less dense areas in the face of outbreaks like COVID-19. But this crisis also highlights the fact that access to quality health care services is important and needs to be taken into consideration.

- Retirement security is linked to work before retirement as well as to savings. In our economy, updating skills, education and career paths is generally the worker's responsibility. With potential changes in the employment market in the aftermath of COVID-19, many people will need to change the nature of their work, and adaptability will be important.

Section 11: Continuing-Care Retirement Communities (CCRCs), Caregiving and Senior Housing Options

SOA research on people age 85 and over indicates that many need help with different types of tasks and essential life skills. A variety of senior housing options offer such help integrated with housing; they may also offer other lifestyle benefits for seniors at the same time. COVID-19, however, has raised questions and challenges with regard to assisted-living arrangements and CCRCs.

Issues raised include the following:

- Facilities where people engage in joint activities, socialize, etc. can speed transmission of COVID-19, and there have been some tragic situations. As a strong precaution, some senior living, assisted-living communities and nursing homes have banned all visitors during the COVID-19 outbreak, as well as eliminated all group activities. In addition, many facilities have needed to require residents to stay in their rooms with meals being delivered. This can be devasting to them, as socialization and exercise are very important components to the physical, mental and emotional well-being of this population.

- Other communities have started with a much more modest response to COVID-19. They may have discontinued activities but still allow residents to visit others both within and outside of the community. Participants in our conversation reported that there are differences in practice with regard to requirements for self-quarantining for residents who leave and return to the facilities.

- CCRCs have been viewed as a good option for many Americans who have sufficient means to enter them, particularly those who are alone and expecting to need help. The impact of COVID-19 and the challenges described in this section may cause some to reconsider staying in CCRCs and choose other options.

- In all of these communities, questions arise about how to care for people who become infected. Should they be cared for in their rooms, moved to a special area or sent to hospitals?

Section 12: Conclusion

The impact of COVID-19 on retirement risks promises to be evolving and riddled with uncertainty over the coming months and perhaps years. Although very early predictions were hopeful that the transmission and aftermath of the virus would be relatively short-lived, this has proven not to be the case. Estimates of its duration are being revised daily, if not hourly. All of this raises questions for further consideration:

- In addition to the current outbreak, what if predictions of potential additional waves of outbreak in the next few months or next year or two come to pass? What will be the impact on those already retired or nearing retirement?

- How will the situation change for this population in light of potential therapeutics and discovery of a vaccine and cure? To what extent will these changes depend on the timing of discovery?

- While people are aware of pandemics and black-swan events generally, it is very likely that few considered them in their retirement planning. COVID-19 leaves open the question of how to factor in similar future events. What types of shifts in the retirement-planning paradigm will be needed?

- The investments markets have been extremely volatile and experiencing major declines, and the outlook for recovery is unclear. At the same time, unemployment has increased dramatically and hopefully temporarily. But many businesses will not survive. What will be the ripple effects on retirement?

- Will the effects of COVID-19 lead to overt or subtle ageism in the employment market and other aspects of society?

This report has provided perspectives as of the end of March 2020 and raised many issues to contemplate in the face of COVID-19 as the situation evolves. It has also signaled the importance of reevaluating the best ways to plan for and manage retirement risks going forward. The SOA is continuing to monitor the current situation and provide research communications to further explore the impact of this pandemic.

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About The Society of Actuaries

With roots dating back to 1889, the Society of Actuaries (SOA) is the world's largest actuarial professional organizations with more than 31,000 members. Through research and education, the SOA's mission is to advance actuarial knowledge and to enhance the ability of actuaries to provide expert advice and relevant solutions for financial, business and societal challenges. The SOA's vision is for actuaries to be the leading professionals in the measurement and management of risk.

The SOA supports actuaries and advances knowledge through research and education. As part of its work, the SOA seeks to inform public policy development and public understanding through research. The SOA aspires to be a trusted source of objective, data-driven research and analysis with an actuarial perspective for its members, industry, policymakers and the public. This distinct perspective comes from the SOA as an association of actuaries, who have a rigorous formal education and direct experience as practitioners as they perform applied research. The SOA also welcomes the opportunity to partner with other organizations in our work where appropriate.

The SOA has a history of working with public policymakers and regulators in developing historical experience studies and projection techniques as well as individual reports on health care, retirement and other topics. The SOA's research is intended to aid the work of policymakers and regulators and follow certain core principles:

Objectivity: The SOA's research informs and provides analysis that can be relied upon by other individuals or organizations involved in public policy discussions. The SOA does not take advocacy positions or lobby specific policy proposals.

Quality: The SOA aspires to the highest ethical and quality standards in all of its research and analysis. Our research process is overseen by experienced actuaries and nonactuaries from a range of industry sectors and organizations. A rigorous peer-review process ensures the quality and integrity of our work.

Relevance: The SOA provides timely research on public policy issues. Our research advances actuarial knowledge while providing critical insights on key policy issues, and thereby provides value to stakeholders and decision makers.

Quantification: The SOA leverages the diverse skill sets of actuaries to provide research and findings that are driven by the best available data and methods. Actuaries use detailed modeling to analyze financial risk and provide distinct insight and quantification. Further, actuarial standards require transparency and the disclosure of the assumptions and analytic approach underlying the work.

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