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2003 Risks & Process of **Retirement Survey**

by Emily K. Kessler

The Society of Actuaries has published a new survey, *2003 Risks and Process of Retirement Survey*. This telephone survey of Americans ages 45 to 80 was conducted by Mathew Greenwald & Associates, Inc., and the Employee Benefit Research Institute (EBRI) on behalf of the SOA. The study had three goals:

- Evaluate Americans' awareness of potential financial risks.
- Determine how this awareness impacts the management of their finances with respect to retirement.
- Learn how Americans are managing the process of leaving the workforce.

The survey was partly designed as a follow-up to the *2001 Risks of Retirement Survey*; some of the same questions were asked and new ones, particularly on phased retirement, were included.

Three hundred three retiree responses and 301 pre-retiree responses were included, for a margin of error (at the 95th percent confidence level) of +/- 5.6 percent. In the survey, pre-retirees are defined as individuals over age 45 who say they are not yet retired. The retiree group is defined as individuals under age of 80 who say they have retired from their primary occupation.

Pre-retirees are more worried about financial and health-care risks than retirees than they were in 2001.

When comparing results between 2001 and 2003, pre-retirees are much more concerned about inflation, maintaining one's standard of living, and paying for health-care costs in 2003 than in 2001. Pre-retirees are also markedly more worried about inflation, health care and having sufficient income than are retirees. Retirees' level of concern was approximately the same in 2003 as in 2001(Figure 1).

Retirees have incomplete strategies for coping with risk.

Retirees and pre-retirees were asked a series of questions about how they coped with risk, particularly financial risk. They were asked if four statements describing different financial risk strategies described them *very well, somewhat well, not too well* or *not at all well.* For both retirees and pre-retirees, the strategy describing reduced spending was picked as the primary strategy for managing financial risk. The strategy describing using investing in stocks to grow savings was less popular with retirees than the prior survey, possibly because of negative market performance. The two strategies describing the purchase of long-term care insurance and annuities were not cited as often, although the number of pre-retirees citing the purchase of long-term care insurance as a strategy describing them *very* or *somewhat well* increased significantly from 2001 to 2003 (Figure 2 on page 12).

Even though retirees and pre-retirees believe the purchase of long-term care insurance is a good strategy, not many of them have actually done it.

(continued on page 12)

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Figure 1

Percentage responding they were "very concerned" or somewhat concerned" about ... (selected responses shown)	Retirees 2003	Retirees 2001	Pre-retirees 2003	Pre-retirees 2001
Keeping the value of savings and investments up with inflation	57%	55%	71%	55%
Having enough money to pay for good health care	46%	43%	79%	58%
Having enough money to pay for a long stay in a nursing home or a long period of nursing care at home[1]	47%	48%/48%	55%	57%/52%
Maintaining a reasonable standard of living	46%	46%	61%	55%
If married, maintaining their spouse's standard of living after their death, if they should die first	44%	43%	57%	41%

[1] In 2001, two separate questions were asked regarding nursing care at home and in a nursing home.

Figure 2

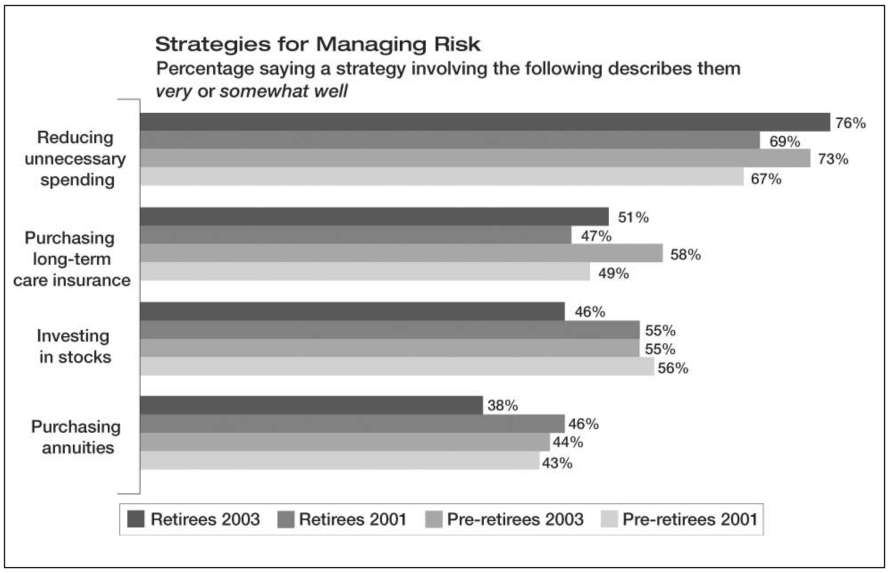
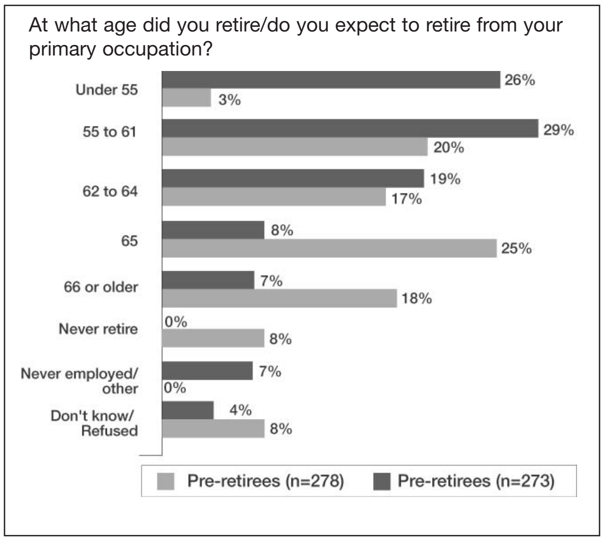


Figure 3



When asked what specifically they had done to protect themselves financially against needing extended nursing care, only 17 percent of pre-retirees and retirees cited that they had purchased long-term care insurance. Not surprisingly, retirees and pre-retirees who said a strategy statement describing the purchase of long-term care insurance described them very or somewhat well were more likely to purchase long-term care insurance (31 percent of retirees and 28 percent of pre-retirees, compared to 1percent of retirees and 2 percent of pre-retirees who said such a strategy described them not too or not at all well.) Another commonly cited strategy to pay for long-term care was saving (9 percent of retirees and 6 percent of pre-retirees). About 11 percent of retirees and 10 percent of pre-retirees said they had purchased health insurance or looked into purchasing health insurance, which might indicate confusion between long-term care and health insurance products.

Seventeen percent of retirees and 11 percent of pre-retirees thought there was nothing they could do to protect themselves. Thirty-three percent of retirees and 45 percent of pre-retirees said they'd done nothing to prepare. For both retirees and pre-retirees, the likelihood of saying there is nothing they can do increased in relationship to the respondents' household income, household wealth, education and health status.

Similarly, when asked specifically what they were doing to protect themselves against outliving their assets, retirees and pre-retirees fell back on the strategy of reducing spending and saving. Cutting back on spending was a primary strategy for both groups (28 percent of retirees, 25 percent of pre-retirees). Both groups, but particularly pre-retirees, cited increasing savings (8 percent of retirees, 18 percent of pre-retirees) and investing in stocks/stock mutual funds (8 percent of retirees, 17 percent of pre-retirees) were primary strategies. Pre-retirees were likely to indicate). Only 3 percent of retirees and 4 percent of pre-retirees cited the purchase of insurance, and 2 percent of retirees and 3 percent of pre-retirees cited the purchase of annuities.

Fewer retirees and pre-retirees had done nothing or felt there was nothing they could do to prevent outliving their assets. Only 18 percent of retirees and 14 percent of pre-retirees said they had done nothing, and 14 percent of retirees and 11 percent of pre-retirees said there was nothing they could do. Retirees over age 70, with less than $25,000 in household income or less than $25,000 in household wealth were more likely to believe there was nothing they could do. Among pre-retirees, those with household wealth under $25,000 were more likely to believe there was nothing they could do to prevent outliving their assets.

Phased retirement already exists informally and is likely to continue.

When asked "which statement comes closest to describing how you retire from your primary occupation," 28 percent of retirees indicated that they had phased into retirement, either by continuing to work for pay part-time or periodically (16 percent), gradually reducing the number of hours worked before stopping completely (7 percent) or continuing to work for pay full-time after retirement (5 percent). Among the 67 retirees surveyed who indicated they phased into retirement, 33 percent worked for a different company, 32 percent worked for the same company at the same job, 25 percent became self-employed and 8 percent worked for the same company but at a different job. Most of these retirees continued to work on a regular basis (52 percent). Only 25 percent worked on a project or as needed basis, 10 percent served as a consultant and 6 percent worked seasonally.

Pre-retirees have much greater expectations of phasing into retirement. Only 41 percent of pre-retirees (versus 71 percent of retirees) plan to stop working all at once. Fifty-seven percent of pre-retirees plan on phasing into retirement, either by continuing to work for pay part-time or periodically (32 percent), gradually reducing the number of hours worked before stopping completely (16 percent) or continuing to work for pay full-time after retirement (9 percent).

Pre-retirees say they'll retire later, but may be ignoring some harsh realities.

In a surprising reverse of trend, the pre-retirees surveyed indicated they planned to retire at later ages than the surveyed retirees indicated they had retired. Fifty-one percent of pre-retirees indicate they'll retire at age 65 or later while only 15 percent of retirees actually experienced retiring at age 65 or later (Figure 3, page 13).

Pre-retirees may be ignoring some harsh realities of retirement. When asked what event or situation would occur that would lead pre-retirees to retire at a certain age, 57 percent of them indicated that they would retire at the time of their choosing, such as when they started to receive a pension (18 percent), had enough money to retire (19 percent) or stopped work completely (20 percent). However, when retirees were asked a similar question, only 37 percent listed similar reasons (22 percent stopped working completely, 10 percent started receiving a pension and 5 percent had enough money). Forty percent of retirees indicated that other factors beyond their control caused them to retire, including a health problem or disability (19 percent), the company closed down (11 percent) they were forced into early retirement (5 percent) or a family member had a health problem (5 percent).

More details on the survey can be found on the SOA Web site. The Committee on Post-Retirement Needs and Risks has also prepared two short reports highlighting the results of this survey and the Retirement Preferences Survey (see January 2003 *Pension Section News* for more detail). The short reports are titled "Process of Retirement – Key Findings and Issues" and "Risks of Retirement – Key Findings and Issues." All the information can be found on the SOA Web site on the new PRNR page at *http://www.soa.org/ccm/content/areas-of-practice/special-interest-sections/areas-of-expertise/post-retirement/*. Questions should be addressed to Emily Kessler, staff fellow, Retirement Systems at the Society of Actuaries at *ekessler@soa.org* or (847)706-3530. The survey will also be featured at the 2004 Anaheim Spring Meeting (Session 108PD). ◆