



Highlights of the 2021 Retirement Risk Survey

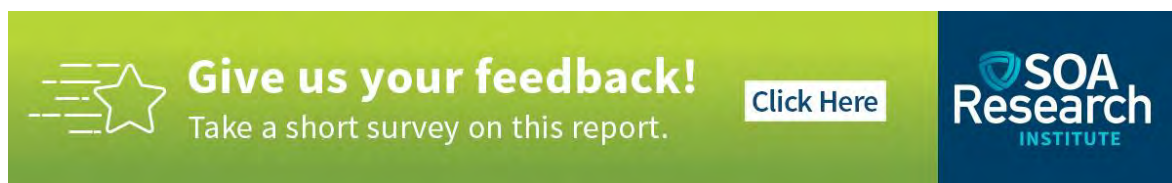






Highlights of the 2021 Retirement Risk Survey

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A horizontal banner with a green-to-blue gradient background. On the left is a white star icon with horizontal lines extending from its left side. To the right of the star is the text "Give us your feedback!" in a bold white font, followed by "Take a short survey on this report." in a smaller white font. Further right is a white rectangular button with the text "Click Here" in blue. On the far right of the banner is the SOA Research Institute logo in white and blue.

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Highlights of the 2021 Retirement Risk Survey

Introduction

The 2021 Retirement Risk Survey is designed to understand the current state of retirement in the United States from an individual's perspective. The study addresses Americans' retirement concerns and preparedness, their income and spending in retirement, how they plan for change in retirement, the impact of shocks and unexpected events, and their views on health and caregiving.

This online survey of Americans ages 45 to 80 was conducted in June 2021 by Greenwald Research on behalf of the Society of Actuaries Research Institute (SOA). This is the eleventh iteration of the Retirement Risk Survey series that has been conducted every two years since 2001.

This year's survey examined five topic areas:

- Retirement risks and planning, including the key trend items on retirement concerns
- Retirement income and spending
- Planning for and dealing with change
- Shocks and unexpected events, a topic repeated from several earlier iterations of the study
- Health and caregiving

Many of the findings of this study are affected by the income and wealth of the respondent, and these are noted in this report. In line with the SOA's commitment to diversity and inclusion, this year's study includes oversamples of Black/African American, Hispanic/Latino, and Asian American respondents and the differences in responses by race and ethnicity are noted in the full report.

Key Findings

This study provides a broad perspective on the issues faced by pre-retirees and retirees across a wide range of retirement issues. This study, conducted in the midst of the COVID-19 pandemic, showed that the pandemic has had a profound but also diverse impact on their finances and views of retirement:

1. IN JUNE 2021, WHEN THIS STUDY WAS FIELDDED, THE COVID-19 PANDEMIC HAD AFFECTED RETIREMENT FINANCES FOR PRE-RETIRES AND RETIREES DIFFERENTLY.

The COVID-19 pandemic has the potential to impact retirement plans, finances, quality of life, return to work plans, and living arrangements. The impact of this crisis is complicated because while it caused economic turmoil and unemployment, it also coincided with a stock market gain and reduced spending, both of which can have a positive financial impact on older adults who hold investments. Retirees, who are no longer working, are less likely to be affected by job loss although some still need or aspire to work in retirement.

Some respondents feel that the COVID-19 pandemic has negatively impacted their financial situation—27% of pre-retirees and 18% of retirees. This compares to only 13% of pre-retirees and 11% of retirees who feel it had a positive impact.

As may be expected, pre-retirees are more likely to plan to make changes as a result of the COVID-19 pandemic than retirees. The likeliest changes were in lifestyle (27% of pre-retirees compared to 18% of retirees) and expectations to work longer (17% of pre-retirees only).

The pandemic was more likely to have a negative impact on the finances of Black/African American and Hispanic/Latino pre-retirees compared to whites, as well as on those with incomes under \$100,000 compared to higher-income individuals. When they look to the future, however, a larger percentage of Black/African American (28%) and Hispanic/Latino (19%) respondents thought the pandemic would have a positive impact on their financial situation than white (8%) or Asian American (12%) respondents.

2. HAVING LOWER WEALTH AND INCOME CREATES CONCERNS AND CHALLENGES.

As might be expected, those with lower income and assets are more likely to be more concerned with and challenged by their finances. For example, retirees with less than \$50,000 in assets are three times more likely to be concerned about running out of money in retirement than those with more than \$250,000 (51% vs 17%) or that they will be unable to maintain their standard of living for the rest of their life (48% vs. 16%). Both pre-retirees and retirees with lower income and asset levels tend to show higher levels of concern across a range of financial issues.

Income also drives:

- *How retirees feel they fare in retirement.* Close to half (45%) of those with incomes over \$75,000 feel that they are faring better now than they were two years ago compared to only 19% of those with incomes under \$35,000.
- *The tendency to plan.* Forty-six percent of retirees with over \$100,000 in income have a spending plan versus only 16% of those with income under \$50,000. Higher-income and higher-asset pre-retirees and retirees are also far more likely to have a financial advisor.

- *The sources of income that they rely on.* Social Security is considered to be a major source of income for 84% of the retirees who have incomes under \$35,000 but only 37% of those with incomes over \$75,000. Retirees with higher income are far more likely to rely on IRAs and 401(k)s for income. Pre-retiree expectations of income sources in retirement mirror this.
- *How prepared they are for financial shock.* Among both pre-retirees and retirees, higher income individuals are generally better prepared to weather a financial shock in retirement.

3. SUPPORT SYSTEMS PLAY A CRITICAL ROLE IN A SUCCESSFUL RETIREMENT.

An aspect of retirement that has not been explored much in the past is the availability of family support systems. Prior SOA research suggests that these support systems play a critical role, and this merited further exploration.

While fewer than one in ten retirees rely a great deal or completely on family members for support, close to one in five relies on family to some extent. Pre-retiree and expectations are similar to what retirees experience.

A number of individuals live in multi-generational households—7% of retirees and 9% of pre-retirees. Of these, over seven in ten pre-retirees and six in ten retirees report that being in this situation has made it easier to care for elderly family members. Beyond that, the oldest and youngest generations both support wage earning, while the youngest generation also helps with errands and home maintenance. Nearly half of pre-retirees (45%) and one third of retirees (34%) report that older or younger generations provide care for elderly family members in multi-generational families.

Pre-retirees and retirees are more apt to say that their family knows more about their values and beliefs than they know about their philosophy and choices when it comes to money. Black/African American (44%) and Asian American (45%) pre-retirees were more likely than white (35%) or Hispanic/Latino (25%) pre-retirees to say they have families who know about their financial lives. Lower income pre-retirees and retirees reported that their families knew more about their lives in general than those with higher incomes.

4. RETIREES HAVE LOWER LEVELS OF CONCERN THAN FOUND IN PRIOR RESEARCH WHILE PRE-RETIREES HAVE CONSISTENT—AND HIGHER—CONCERN.

Pre-retirees' levels of concern regarding various retirement risks are similar to those that have been reported in previous years. In contrast, retirees' levels of concern are down significantly from 2019. Two areas that retirees were less concerned about than in 2019 were their ability to maintain their standard of living in retirement and their ability to fund health and long-term care needs. The gap between retiree and pre-retiree concerns has always existed but was significantly higher in 2021.

The one exception to this trend was concerns about fraud. In 2021, 47% of retirees and 43% of pre-retirees were at least somewhat concerned about fraud, up from 36% and 31% in 2019, respectively. Black/African American retirees are particularly concerned about fraud with 64% being at least somewhat concerned.

Based on the COVID-19 pandemic, this year's survey asked if being socially isolated is a concern. This is a real issue for some individuals, as about two in five retirees (35%) and pre-retirees (39%) report being very or somewhat concerned. More than half of Asian American pre-retirees and retirees share this concern.

5. RETIREES REPORT HAVING THE SAME OR A BETTER STANDARD OF LIVING COMPARED TO WHAT THEY EXPECTED WHEN THEY WERE WORKING.

Despite the COVID-19 pandemic, a large majority of retirees report that they are doing either the same or better now than they expected when they were working. They also feel they are doing the same or better compared to two years ago. For example, almost half (47%) feel that their financial situation meets their expectations and another 40% feel that they are doing better than expected. The view is not universal. For instance, while almost half of Black/African American (45%) respondents say their financial situation meets their expectations, only 29% say they are doing better than expected.

Overall, very few retirees (12%) feel they are doing somewhat (9%) or much worse (3%) than they expected.

As a result of the pandemic, most retirees report that they are either keeping their spending the same (45%) or reducing it (45%). In contrast, a majority of pre-retirees (55%) report that they anticipate having to decrease their spending in the next ten years.

Surprisingly, most believe the experience of living through the pandemic will have no impact on their approach to their management of personal finances. Although there was a change in spending expectations, only a small percentage of pre-retirees and retirees believe that the pandemic will result in more financial activity including planning, saving, contribution to emergency funds, and money management.

6. VERY FEW PRE-RETIRES AND RETIREES ARE PREPARED FOR CHANGES IN RETIREMENT.

Change can be expected as a person enters retirement. Retirees acknowledge change, but their focus tends to be more short-term, making it hard to anticipate change in advance. This leaves them unprepared to manage changes in the future. In fact, prior research by the SOA found that retirees tended to deal with unexpected events as they happened.

While more than six in ten pre-retirees and seven in ten retirees have given at least some thought to how their lives will change throughout retirement, only 16% of pre-retirees and 27% of retirees feel very prepared for financial events in the future. Pre-retirees are more likely to feel not too or not at all prepared than retirees (29% vs. 17%). Responses vary greatly by income.

Just 13% of pre-retirees and 11% of retirees feel that political, social, and natural events will have a positive impact on their finances in the next 10 years. Interestingly, Black/African American (28%) and Hispanic/Latino (22%) retirees are more likely to believe that these events will have a positive impact.

7. PRE-RETIRES AND RETIREES ARE VULNERABLE TO UNEXPECTED FINANCIAL SHOCKS.

This study sheds light on the vulnerability of pre-retirees and retirees to financial shocks in retirement and how people manage them.

Approximately half of the pre-retired population report experiencing some type of unexpected financial shock, as well as more than four in ten retirees. One in five pre-retirees report that these shocks have reduced their assets by 25% or more and reduced their spending by 10% or more, but far fewer retirees report these reductions. For example, just one in ten retirees (11%) report that shocks reduced their assets by more than 25%.

When asked what they could afford to spend without jeopardizing their retirement security, half of pre-retirees report that they could only afford to spend \$10,000 or less, and more than half of retirees could afford no more than \$25,000. Black/African American pre-retirees (61%) are more likely than pre-retirees in general (40%) to be impacted by an unexpected expense of up to \$10,000. Among retirees, Black/African American respondents (58%) and Hispanic/Latino (52%) said they are not able to spend \$10,000 without it affecting their retirement security. This was much greater than the general retiree response (32%).



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Conclusions

This study, conducted during the pandemic, shows a compelling story regarding the views of pre-retirees and retirees. As we have seen in prior research, retirees are less worried about their finances than pre-retirees. A key finding was that retirees showed lower levels of concern about most retirement risks than in 2019.

Naturally, economic status, particularly income level, had a pervasive effect on many aspects of the study. Lower income respondents had greater financial concerns, different expectations of retirement, and were less prepared to cope with the shocks and uncertainties of retirement. Differences in results by race and ethnicity existed, but they were less predictable than results by income.

The study raises questions about the short and longer-term impact of the pandemic on retiree finances. While a majority of both pre-retirees and retirees felt it had no effect on their financial situation, there were significantly more who said the pandemic had a negative effect than those who saw it as a positive effect.

These key findings may be related. For instance, retirees may have fared better during the pandemic than pre-retirees because they benefited from reduced spending and the overall financial markets without the fear of job loss. This might explain why their concerns went down while pre-retirees stayed the same. At the same time, it is concerning that nearly one in five retirees felt they were worse off due to the pandemic and may have less opportunity to recover.

The pandemic has continued for nearly two years, far longer than most people expected at its start. The situation grew worse with new surges after the survey was conducted, and there remain substantial uncertainties about how pandemic related events will impact longer-term retirement security. It will take two to three more years to understand the longer-term impacts and how the population divides.

About the Study

The 2021 Retirement Risk Survey was conducted by Greenwald Research and sponsored by the Society of Actuaries (SOA). The SOA Committee on Post-Retirement Needs and Risks and its Project Oversight Group worked with Greenwald Research to develop the questionnaire and report on the findings.

The survey was conducted using Dynata's online consumer panel, from June 4 through June 22, 2021. This was a time when many anticipated the pandemic to end shortly and prior to subsequent surges. A total of 2,229 individuals, ages 45 to 80, responded to the survey - 1,061 pre-retirees and 1,168 retirees. Racial and ethnic oversample quotas were added to the design, containing at least 200 Hispanic/Latino respondents, 200 Black/African American respondents, and 200 Asian American respondents.

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