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RETIREMENT: Most people expect to start this phase at 65. A recent SOA focus group study finds that many resource-constrained workers are leaving their jobs before they want to.

**Retire ...
Or Not?**





By Anna M. Rappaport

RETIREES TALK

Candid Conversations About Retirement

Within the last 150 years, U.S. senior citizens have gone from working until they no longer could to being pushed into retirement. The Social Security Act of 1935 was put in place to give aid to those 65 and older. Companies started pension programs as another incentive. By the 1960s, workers wanted and expected to retire and enter their golden years—trips to Florida, extra time with the grandkids and finally reading *Moby Dick*.

They expected to start this new phase of their lives at 65. A recent Society of Actuaries' (SOA) focus group finds that many resource-constrained workers are leaving their jobs before they want to.

The SOA's Committee on Post-Retirement Needs and Risks conducted a series of focus groups to learn more about the decisions made by people who have retired voluntarily in the last few years.

The researcher leading the focus groups, Mathew Greenwald, who has been involved in the retirement and financial services fields since the 1970s, believes that while many retirement issues do not seem to change much, two findings provided fresh insight into the retirement process.

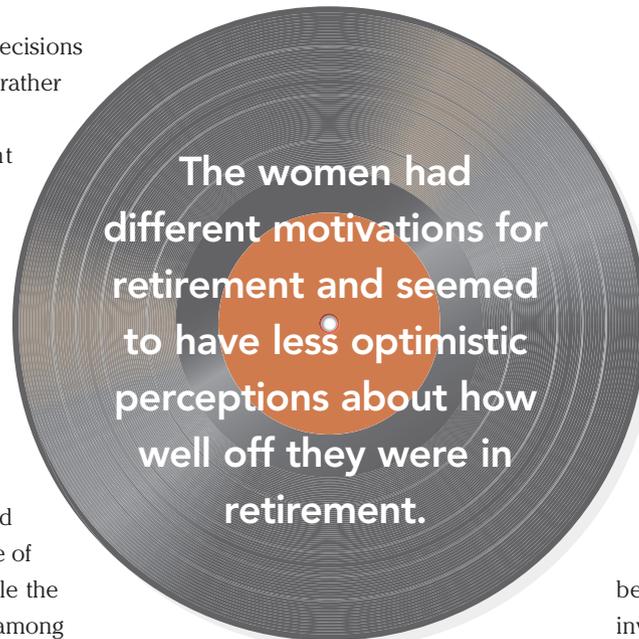
- Many voluntary retirement decisions were the result of a “push,” rather than truly voluntary.
- There were significant differences in experiences and perceptions by gender.

The focus group findings are consistent with observations from the SOA’s post-retirement risk surveys. Future retirees expect to work to much older ages than have previous retirees. The 2013 Risks and Process of Retirement Survey found that the median actual retirement age of the retirees in the study was 58, while the median expected retirement age among those nearing retirement was 65. These studies also indicate that a much greater percentage of pre-retirees expect to work in retirement than the percentage of retirees who actually work in retirement. There are other areas with differences between pre-retiree expectations and actual retiree experiences.

This study was designed to explore how individuals make retirement decisions to gain a better understanding of what steps were completed, how finances and other factors were considered, and how successful they have been in their retirement years. 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.

HOW ARE WORKERS DECIDING TO RETIRE?

While the focus group participants said they had retired voluntarily, most had been nudged into retirement by the work becoming too difficult, the workplace becoming less pleasant, health challenges, or the need to



provide caregiving. Few retired to meet their dreams, pursue a hobby or start a business, but most of them enjoyed retirement activities such as travel. They described workplace difficulties such as physically difficult jobs, messages from their employer they perceived

as “encouraging” them to retire and challenges in working with younger supervisors. For example, they retired:

- “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, entry into retirement is assumed to consist of a clear distinction between a voluntary decision and an involuntary determination. 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. This study focused on middle-income retirees who are

Committee Work

THE SOCIETY OF ACTUARIES’ COMMITTEE on Post-Retirement Needs and Risks has been working to improve the management of the post-retirement period for about 15 years. As part of that work, the committee has studied how middle-income Americans (generally those with less than \$500,000 of net worth) make decisions about retirement and how they deal with key financial risks after retirement. The SOA uses these results to improve retirement security and the systems that support it. Results of research are communicated to the public, actuaries and others to help individuals achieve a higher level of financial security.



Give It Some Thought

WHAT DO YOU THINK ABOUT THE DIFFERENCES BY GENDER? Share your thoughts on the SOA Pension Section LinkedIn site at <http://www.linkedin.com/groups?mostPopular=&gid=3320437>.

financially resource constrained. Results may or may not be different for retirees with higher income and asset levels. This 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.

WHAT ARE THE DIFFERENCES BETWEEN GENDERS?

The focus groups were conducted with separate groups of men and women who met the specified asset levels and retirement timing conditions. Actuaries and other retirement experts have long known about longevity, earnings and family status differences, and their impact on retirement. While the impact of differing roles in the family is known, the focus groups offered new insights. The women had different motivations for retirement and seemed to have less optimistic perceptions about how well off they were in retirement. Three actuaries who observed the focus group provided some comments.

- “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.” —Steve Siegel, ASA, MAAA, research actuary at the SOA

- “I noticed the women were more involved in caregiving roles. Some had left their jobs for caregiving and others had taken on various caregiving roles since retiring. Of more concern, the women were using their financial resources to help in the caregiving 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 caregiving duties. In general, they did not express concerns and did not expect to take on caregiving roles. A few men had significant caregiving roles for their wives who had a debilitating disease.” —Carol Bogosian, ASA, Project Oversight

Group co-chair, Committee on Post-Retirement Needs and Risks member

- “Most of the men in the Baltimore group said they did not think much at all about life expectancy since there wasn’t any 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.” —Cindy Levering, ASA, MAAA, EA, Project Oversight Group co-chair, Committee on Post-Retirement Needs and Risks member

The researchers noted the differences by gender were more striking than those that surfaced in several prior survey studies. The report discussing the findings includes extensive quotes from many of the participants and nicely captures the provocative exchanges that ensued.

The report, “The Decision to Retire and Post-Retirement Financial Strategies,” is available on the SOA’s website at SOA.org/The-Decision-to-Retire/. The study was motivated by a desire to gain understanding of how people make decisions about when to retire and about managing financial risks in retirement. The study was also designed





Additional Resources

THE SOCIETY OF ACTUARIES' "MANAGING RETIREMENT DECISIONS" SERIES provides 11 decision briefs designed to help individuals and advisers think through the range of issues to be considered when making retirement decisions. The briefs offer information about options, pros and cons, and help the users identify issues they might not think about. They can be particularly valuable since there are so many different complex and interwoven issues to be considered. They can be found on the SOA website at <http://www.soa.org/managing-retirement/>.

Find the full report, "The Decision to Retire and Post-Retirement Financial Strategies: A Report on Eight Focus Groups" at <http://www.soa.org/Research/Research-Projects/Pension/The-Decision-to-Retire.aspx>.

- Keeping valued and hard-to-replace talent. Former employees do not need training and are ideal to help with mentoring and training.
- Providing a pool of individuals available to help with special needs or projects and increased workloads. Examples of such needs include substitute teachers, extra help at holidays or after major storms (including people such as utility workers and claim specialists), and people to fill in during periods of absence.
- Enhancing the reputation of the company in the community.

to help understand the rationale and process used in decision-making. Clearly, this is an important topic for future retirees because whether they have sufficient assets and income for retirement is very dependent on how much they have saved, when they decide to retire, and how they expect to live during retirement. In addition, while certain financial shocks, such as health care expense or loss of income or assets, may be encountered in retirement, just as they were during a person's working lifetime, the individual's ability to respond to them may be less. There are also many nonfinancial decisions involved in the process.

part of retirement. Working in retirement can include working for the same employer or a different one. Whether phased retirement is offered as a formal program or an informal arrangement, it may include any or all of the following:

- Ability for employees to work on a reduced or modified basis as they approach retirement
- Re-employment of retirees
- Ability for employees to collect some portion of pension benefits while being paid for continued work.

There is opportunity for actuaries to assist employers who wish to develop these programs. There are a number of related pay and benefit issues to be considered.

WHO CAN USE THIS RESEARCH AND WHAT CAN THEY LEARN?

Several groups can apply the findings of this research in different ways.

- Employers need to deal with the aging workforce and expected retirements, and integrate their retirement programs with their workforce management initiatives. The focus groups demonstrate there are many

IS RETIRING DIFFERENTLY A GOOD IDEA?

Work is increasingly being accepted as a

Some of the advantages of offering phased retirement options for employers include:



WHAT IS THE VALUE OF RETIRING LATER?

Another new SOA study, “Improving Retirement Outcomes: Timing, Phasing and Benefit Claiming Choices” by Vickie Batjelsmit, Anna Rappaport and LeAndra Foster, reviews how and when Americans retire, including trends in labor market participation and phased retirement. A few highlights of the background research reported in the study include:

- Individuals do not fully understand the value of retiring later, or the factors that contribute to increased security.
- Although retirement ages steadily declined over several decades, there have been modest increases since 1990, particularly for women.
- The aging of the population and delayed retirement trends are expected to lead to an increasing number of people older than 55 in the labor force.
- Phased retirement is an idea of major interest to the public, but it has not been widely integrated in employment arrangements. The majority of implementations to date involve informal phased retirement or rehiring of retirees.
- Many employees phase by retiring from their primary employer and obtaining alternative part-time employment with a new employer.

The authors use a simulation model to investigate the impact of various retirement timing and benefit claiming scenarios on retirement outcomes for typical U.S. married-couple households. Major findings of this research include:

- The typical household has insufficient wealth to maintain its standard of living in retirement if the couple retires and claims Social Security at age 62.
- There are huge differences between the wealth needed to have a 50 percent vs. a 90 percent chance of having adequate resources to not run out of money. This occurs because financial and life shocks, such as unusual longevity or the need for extended long-

term care (LTC), are shown to be extremely important factors in the success or failure of a retirement plan.

- While delayed retirement and delayed Social Security claiming reduce the risk of retirement wealth shortfall, households are still exposed to substantial risk from health, LTC and investments.
- While phased retirement strategies reduce the risk of retirement shortfall, the wealth needed at retirement may still exceed the amount accumulated by typical retirees.
- Expense reduction in retirement, combined with delayed retirement and increased saving, will improve the chances that retirement wealth lasts a lifetime but does not mitigate the impact of shock risks such as LTC.
- Although a defined-benefit plan will help retirees meet regular cash flow needs, it will not insulate them from shortfalls driven by investment, health and LTC risks. The choice of a survivor annuity option has minimal impact other than providing income to a surviving spouse.

An important difference between this SOA study and most other retirement forecast models is that it incorporates a wider variety of post-retirement risks. The Employee Benefit Research Institute also has a model that includes a range of risks, but its model is more focused on policy analysis.

The study report provides a full description of the methodology, assumptions and results and includes a number of tips on practical issues. It can be found at SOA.org/2013-improving-retirement/.



issues in the workplace that create opportunities for improvement. Phased retirement is an area for expansion of employer initiatives and will be good for many individuals and for businesses. The “Improving Retirement Outcomes: Timing, Phasing and Benefit Claiming Choices” (see page 19) research includes many examples of phased retirement as well as the analysis of its value.

- Individuals planning for their own retirement can get an idea of what their needs might be and which strategies may work best for them. This research demonstrates the need for people to take steps to prepare themselves for longer work.
- Public policymakers can gain insights into how government efforts can support and encourage better programs for working longer, financial

education, phased retirement and more thoughtful Social Security claiming. Public policy today includes some barriers to phased retirement and other programs to support employees working differently. The 2008 Employee Retirement Income Security Act (ERISA) Advisory Council “Report on Phased Retirement” offers insight into some of the legal issues.

- Financial advisers can help their clients plan for retirement, including planning and preparing for working longer, saving more, claiming benefits and evaluating different retirement ages.
- Financial service companies providing products and services to support retirement can better develop products to support individuals and financial advisers.
- Consulting actuaries can advise their employer clients to focus on maximizing the utilization and effectiveness of their retirement programs through not only plan design but also targeted communication and workforce planning. With financial service company clients, products and services will be most important.

work of the Society of Actuaries’ Committee on Post-Retirement Needs and Risks, as well as other studies, offer important insights for professionals thinking about these issues and focusing on innovation and making systems work better. Areas that badly need attention include improving retirement savings, better risk management after retirement, helping people prepare themselves for later work, improving work options for older workers and encouraging organizations to become more age-friendly. 

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Author’s Note: This article draws, in part, from related research studies and the report, “The Decision to Retire and Post-Retirement Financial Strategies: A Report on Eight Focus Groups.” Blog posts on this topic have been previously published as well.

About Mathew Greenwald
Mathew Greenwald, Ph.D., is the president of Mathew Greenwald & Associates, a market research firm founded in 1985 that specializes in retirement and financial services issues. Prior to founding Greenwald & Associates, Greenwald spent 12 years at the American Council of Life Insurers. From 1977 to 1985, he was ACLI’s director of social research. More information can be found at <http://www.greenwaldresearch.com/>.



CONCLUSION: IT’S JUST THE BEGINNING

As more baby boomers reach traditional retirement ages, the integration of work and retirement will continue to grow in importance as many find themselves without sufficient resources to enjoy their desired standard of living. The