



KEY FINDINGS AND ISSUES:

The Phases of Retirement and Planning for the Unexpected

>> Aug 2008

2007 RISKS AND PROCESS OF RETIREMENT
SURVEY REPORT



SOCIETY OF ACTUARIES

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Overview

Long and widely heralded, the baby boom generation's aging to retirement is already underway. In 2008, those at the beginning of the baby boom generation reached the age at which they are eligible for early retirement under Social Security. As a result, issues of retirement security are posing an increasingly prominent challenge to the economy and to families with members already retired or facing retirement. Compounding these issues, the concept of retirement itself is changing as those at traditional retirement ages often choose to reinvent their lives. It has been increasingly observed that many experience different phases during retirement, combined with diverse patterns of activities. At the same time, the approach to entering retirement has changed for many, with it becoming more of a staged process, in which leisure time and other forms of social engagement increase as work decreases. It is fair to say that baby boomers are changing not only their own concept of retirement, but influencing how future generations will embrace it.

An understanding of the risks associated with retirement, what is meant by the word *retirement* itself, and how it is experienced is particularly important today in light of our aging society, volatility in financial markets, and the urgency for individuals to assume more responsibility in managing their retirement assets. Emphasis in retirement planning traditionally focused on the pre-retirement period, while phased retirement has received little attention. This report provides key findings from the **2007 Risks and Process of Retirement Survey** (2007 Survey) related to how respondents conceive retirement and how they retire. It also examines post-retirement phases, as defined by retirees' abilities and needs. Retirement phases can be defined by a number of characteristics including age, health status, extent of work, family status and capabilities.

Since 2001, the Society of Actuaries (SOA) has commissioned biennial research on public attitudes toward retirement through surveys conducted by Mathew Greenwald & Associates, Inc., and the Employee Benefit Research Institute (EBRI). The purpose of the 2007 Survey, the fourth in this biennial series, is to evaluate Americans' awareness of retirement risk, how their awareness has changed recently, and how it affects the management of their finances. The 2001, 2003, 2005 and 2007 studies separately analyzed current retirees and those not yet retired, referred to in these reports as 'pre-retirees.'

The 2007 Survey was conducted through telephone interviews of 801 adults age 45 to 80 (400 retirees, 401 pre-retirees) in the summer of 2007. Households were selected for participation from a nationwide targeted list sample. The margin of error for study results, at the 95% confidence level, is ± 5 percentage points for questions asked of all retirees or pre-retirees.

The 2007 Survey applies to Americans on average, and does not provide specific insights into behaviors and values of high net worth individuals. Only 6% of the sample reported \$1 million or more in savings and investments, although this was up from 2% in 2005. Five percent of pre-retirees and 6% of retirees report savings and investments between \$500,000 and \$1,000,000. Twenty-two percent of pre-retirees and 11% of retirees report household incomes of at least \$100,000, up from 15% and 10%, respectively, from two years prior. At the low income end of the spectrum, 7% of pre-retirees and 19% of retirees report incomes below \$25,000.

Four key findings reports related to the 2007 Survey are being produced. Besides this report on the phases of retirement, a key findings report on the risks of retirement was issued in May 2008 and is available on the SOA web site at www.soa.org. Additional reports from the 2007 Survey will cover the risks of health and long-term care, and retirement issues of special concern to women.

Finally, for a balanced perspective, the discussion sections in this report include input from all organizations that supported the studies and material from other related research.

An Introduction to the Phases of Retirement

Life expectancy is increasing, so more Americans have the potential to enjoy longer time in what they may have conceived of as an ideal retirement. For a significant number, the time spent in retirement may last upwards of 40 years, which, for some, will be a longer period than their working lives. This Report attempts to shed light on the changes they are likely to encounter as they pass through what are defined, for purposes of the survey, three phases of retirement. Additionally, it emphasizes the benefits of planning for such changes. In reality, the progression is more of a continuum and, except for examples of sudden changes in health, few people move uniformly from one phase to the next. The ideal for most people is to be able to plan for these phase changes both financially and emotionally. Page 3 provides more complete details of what can bring about such changes.

Change can come suddenly or gradually, planned or unplanned, and from both financial and non-financial causes. As well, change can be categorized in a number of ways.

Examples of sudden, unplanned change include the following events:

- Loss of a spouse
- Catastrophic personal or family illness producing diminished capabilities and/or needs
- Loss of employment
- Major financial losses from poor performing investments

On the other hand, gradual change may be the result of the following causes:

- Natural process of aging
- Onset of chronic disease
- Erosion of financial assets through inflation

As noted above, change can also be deliberate and carefully planned. Significant planned change may occur from the following:

- Moving to a new location, including senior housing or a continuing care retirement community
- Marriage, assuming responsibility for grandchildren, and other planned family status changes
- Improvement of health through elective surgery and other measures
- Gradual reduction of hours worked

In terms of change during retirement, the research presented in this report focuses on the dynamic of what people say and what they do. Much of this presentation is based on their activities in retirement. Although spending plays a role in this regard, this report does not specifically address this aspect. Readers interested in learning more about how spending changes in retirement may wish to read the papers collected in the SOA's online monograph entitled *Needs and Spending in Retirement: Unraveling the Mystery* available at www.soa.org.

An Introduction to the Phases of Retirement—Differing Ways to Conceptualize

As mentioned on page 2, change and phases in retirement may be conceptualized in a number of different ways, including the following:

Changes in health, functional status and physical capability—For instance, the 2007 Survey defines phases based on the capability to perform activities either (1) the same as prior to retirement, (2) at a somewhat reduced level, or (3) a very reduced level. Another retirement study, the University of Michigan’s Health and Retirement Study (HRS), defines health status changes based on self-declaration. For functional status changes, the National Long-Term Care Survey uses definitions based on the ability to perform a variety of tasks and activities of daily living (ADLs). Similarly, long-term care insurance policies define eligibility for benefits based on ability to perform ADLs.

Changes in family status—These changes include the loss of a spouse, divorce and marriage. For many, a change in family situation can represent a major impact to their daily lives. For example, the death of a higher-earning spouse may mean a substantial decrease in income for the surviving spouse. Likewise, couples often care for one another, and the need for a paid caregiver is much less likely for those who are married than someone who is frail and living alone. The 2007 Survey includes a question about expected change in financial well-being in the event of the death of a spouse. The results of this question prompted those involved in designing the 2007 Survey to express concern that many of the respondents did not seem to anticipate and plan for the issues that may be encountered in such situations.

Age ranges—A series of age bands may be used to track and assess change over time. For instance, this type of analysis is performed as part of the HRS. Although age alone does not define phases of retirement, age is clearly correlated with such changes as frailty and other diminishing capacities. Historically, age 65 has been a significant marker to define status with regard to retirement. Data on income and spending are also typically categorized by age groups.

Employment status—The nature of employment at various times may be used to define phases of retirement. Many workers transition gradually through a spectrum of full-time employment to full-time retirement, and points along the spectrum may define different phases. There are differing views as to when someone should be considered in retirement as they progress through this spectrum. For more information related to employment status, please refer to the report titled “Key Findings and Issues: Phased Retirement and Planning for the Unexpected” from the 2005 Risks and Process of Retirement Survey, available on the SOA web site at www.soa.org.

Other ways to conceptualize change and phases include following sets of cohorts of retirees over time and observing their experiences. The categorization scheme applied will depend on the objective of the study and/or its ultimate use. In any event, it is important to remember that the period of retirement can be segregated in a number of ways and there is no one standard accepted practice.

An Introduction to the Three Phases of Retirement—Phase One

It is being increasingly recognized that the key to success in retirement is a combination of sound financial management and planning, healthy lifestyle habits and engagement in activities. This report discusses both financial issues and engagement, focusing on what people do in retirement. The activities studied include work, care giving and volunteering. In turn, this also leads to the categorization used in the 2007 Survey to define phases of retirement, beginning with Phase One.

Phase One is the most active phase of retirement. Retirees entering this phase may define retirement based on collecting a pension, leaving a long-term job, or moving to a location of choice. During this phase, the physical and mental capability of a retiree or retired couple is essentially the same as before retirement. Paid work and/or volunteering often occur in this phase, although the nature of the paid work is often on a part-time basis or through self-employment. Work during this phase may utilize established skills, or it may involve pursuing new areas—often meeting a dream not possible before retirement. Of the latter situation, work in retirement and leisure often may become practically indistinguishable. On the other hand, such work may also be a means to securing needed health insurance as well as other benefits and income, but provide little in the way of self-fulfillment. As such, in many instances, work may be a substantially reduced priority for those who continue to work in this phase.

Some view Phase One of retirement as the most opportune time to fulfill their dreams. Retirees who have experienced situations such as a premature death or disablement of a loved one may be motivated to pursue desired activities while they are healthy. This motivation can cause some to retire early to ensure they have as much time as possible to do so. Travel may be one of the major activities pursued, especially for those with sufficient resources. This may include adventure travel to exotic locations or even living abroad.

For some retirees, Phase One is a chance to exercise and participate in sports at a much greater intensity level than prior to retirement. Many retirees play golf and tennis daily, while others prefer scenic hiking and walking. Others may try new activities such as scuba-diving that would only be possible because retirement affords them to travel to different locales. In this sense, travel and physical activity may be interlinked for retirees.

Retirement may be voluntary, but for some it may occur for reasons beyond their control, such as a layoff or health issues. For those fortunate to retire in good health and maintain it, the first phase of retirement could last many years. For couples, the period of Phase One may be easier if both are in good health and share interest in similarly approaching work versus non-work activities.

An Introduction to the Three Phases of Retirement—Phase Two

The beginning of Phase Two is marked by a decline in either physical or mental capacity, or both. This phase, if it occurs, does not happen at the same age for all. Many retirees may unwillingly enter this phase because of health problems that occur before retirement, causing them to miss Phase One completely. Because of physical limitations, exercise will generally have shifted away from vigorous activities, although many will continue to exercise on a regular basis. While sports such as tennis are not feasible, less strenuous activities such as walking, gardening, and golf may be good options. For some, driving may become a problem. Consequently, transportation may pose a significant issue, particularly if no family members or friends are available to drive.

Because of health problems, retirees in this phase may incur extra medical expenses, and they often have high prescription drug costs. Adequate insurance becomes more of an issue during this phase, although some of the health costs may not be covered by medical insurance. Generally, other help needed at this point will not be covered by long-term care insurance. Related to health conditions, retirees may need to make decisions concerning their housing and whether they need to move to a house that is more physically manageable or to an assisted living facility in a retirement community. Given this concern, specially designed housing can be extremely helpful.

For couples, it may be that only one is experiencing Phase Two, while the other is still working and/or healthy. This presents the healthy spouse with responsibilities to ensure assistance as needed. For the types of assistance needed during this phase, the family generally is the primary source of help, perhaps supplemented by others. Community and paid services for assistance may also be available.

Fewer retirees work in Phase Two, although some will continue. Data later in this report illustrates what percentage of the elderly are working based on health status.

Relationships and interactions with others usually become more meaningful in this phase. For example, being near family and having their support is helpful, although not always possible. In terms of personal interactions, many retirees in this phase enjoy various volunteer activities and clubs. Volunteer activities offer a way to reach out to others and give back at the same time. Book clubs and game groups are typical examples of these activities. In addition to providing needed physical support, one of the advantages of retirement communities and specialized housing is that they offer the chance to make new contacts and friends.

For those who want to travel and have the resources to do so, travel needs to be planned to fit the limitations of the individual. Cruises offer a good option for retirees with modest limitations. Likewise, national parks in the U.S. offer a wide range of walking opportunities. For retirees in this phase who are less mobile, travel may be more confined to visiting with others, rather than sightseeing and touring. A common reality of this phase is that those who traveled much earlier in retirement may find this a time where they need to cut back either because of health issues or financial resources.

An Introduction to the Three Phases of Retirement—Phase Three

Phase Three is the least active phase of retirement and it is a time when retirees likely will have substantial need for assistance. Like Phase Two, Phase Three, if it occurs, does not begin at the same age for all retirees. The need for assistance may arise due to cognitive or physical impairment or both. Some retirees in this phase are unable to speak or write, and communication can be very difficult.

Retirees are much less physically active during this phase. Activities will generally be limited, but special exercises can be designed for those with limitations. For most, driving may no longer be feasible. Mobility and transportation are a significant issue, particularly if there is not a family member available to help.

Appropriate and regular support is an important aspect of this phase. Many retirees will prefer to stay in their own homes, if possible. For most retirees requiring nursing home care, long-term care insurance will pay for certain benefits, but relatively few of them have it. The prospects for retirees in this phase vary considerably depending on the type of disabilities they have and whether they have access to caregivers such as family. In terms of who provides the care giving, family is often the primary source of this support. Community and paid services may also be available.

In many cases, family caregivers may need to leave their jobs because of the intensive demands of care giving. Such situations can also create great personal and financial strains. Difficult decisions regarding living arrangements occur frequently when a great deal of care giving is needed. For instance, during Phase Three, many retirees will need to decide if their present housing is suitable and at what point housing requiring less maintenance, a senior community, assisted living or a nursing home is necessary. Whether present housing is suitable will depend on such features as the number of steps in the house, access for wheelchairs, daily assistance needs, and proximity to health care providers. Because of health problems, retirees in this phase usually have extra medical expenses, and they often have high prescription drug costs.

Relationships and interactions with others are very important in this phase. As in Phase Two, being near family is helpful but not always possible. Many individuals in this phase will no longer be able to participate in the social activities they previously did. One of the advantages of assisted living and nursing homes is that in addition to housing, food and care, they offer activities suitable to those with severe limitations.

Survey Results on the Phases of Retirement

The following pages present results from the 2007 Survey relating to the three phases. Besides the results specifically concerning the three phases, material about the timing of initiating retirement is also presented. The three phases are directly related to the timing of retirement in the sense that the ultimate duration, or for that matter, possible elimination, of the three phases depends on this timing. The survey results indicate a perceived advantage or desire to delay retirement on the part of many pre-retirees, which, if realized, could lead to future elimination or contraction of the first phase. Likewise, changing life expectancy could affect the duration of any of the phases.

Most spend at least some time planning for the first phase of retirement.

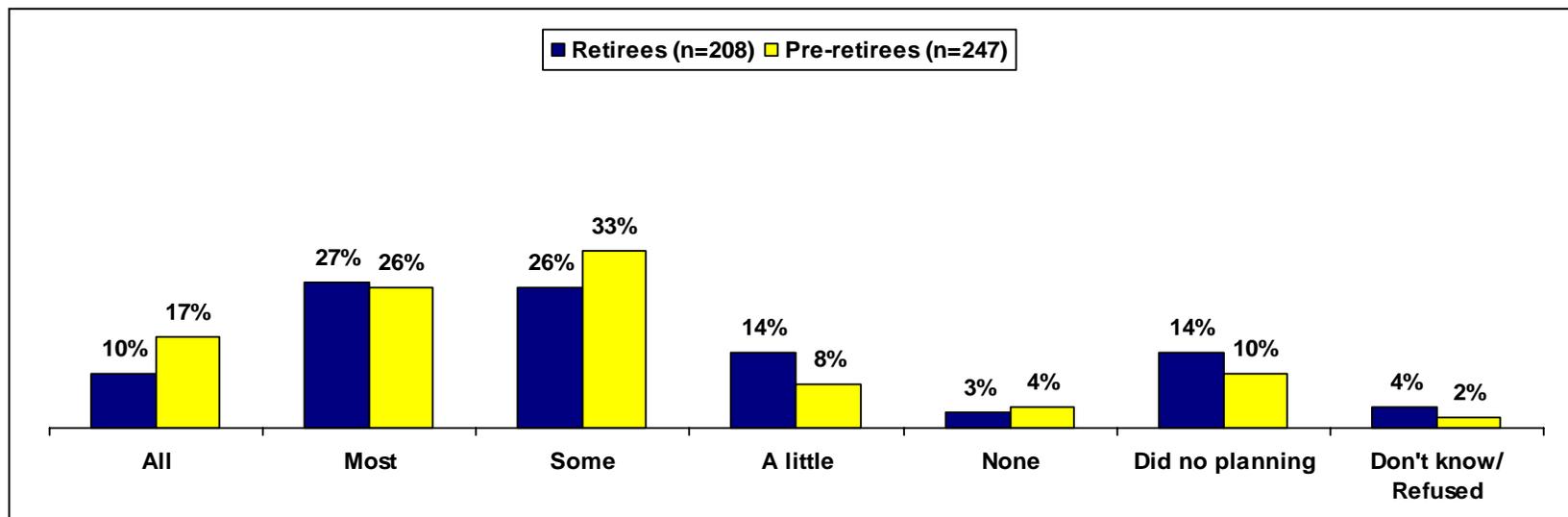
Finding

The first, active phase of retirement is a time when retirees' needs and abilities are about the same as they were prior to retirement. About four in ten pre-retirees (44%) and retirees (38%) have focused most or all of their planning on this phase of retirement. One in nine pre-retirees (11%) and two in ten retirees (18%) have spent little to no time planning for this active phase.

Discussion

Much has been written about trends such as “the new retirement”, and “re-invention to build a life portfolio.” Virtually all of this focuses on the first phase of retirement, rather than the later phases and the realities of dealing with limitations. When retirees enter the later phases of retirement, they are less likely to be able to work and more likely to need help. Yet a significant number of respondents are not planning directly for the later phases. This result is consistent with other research that indicates that planning is often quite short term. Further, many individuals avoid planning for the risks they may face in the long term for a variety of reasons including having to contemplate potentially unpleasant events.

About how much of your (retirement) planning would you say is/has been focused on this part of retirement? (Among those experiencing or expecting the first, active phase of retirement)



A majority expect to experience some level of incapacity during portions of retirement.

Finding

Pre-retirees are more likely than retirees to expect a period of time with no limitations during retirement. Six in ten pre-retirees expect to have an active phase of retirement (60%), compared to 52% of retirees.

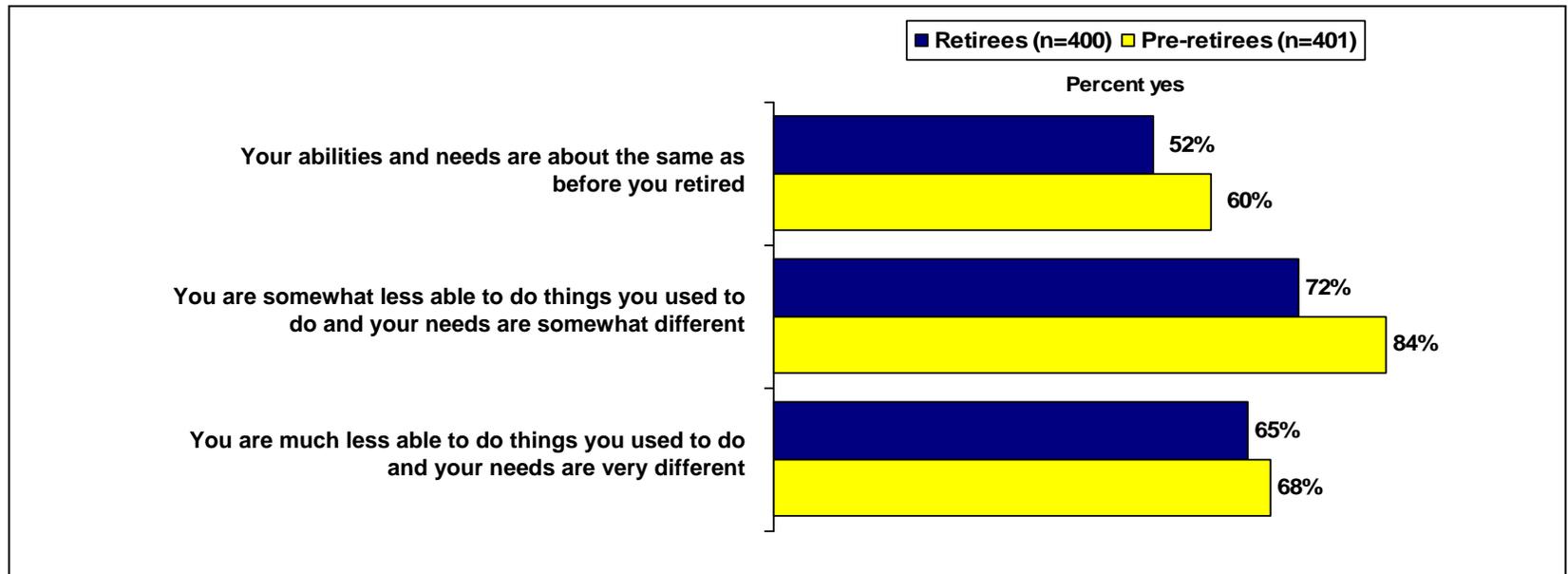
Pre-retirees are also more likely than retirees to expect some level of limitations. Over eight in ten pre-retirees expect to be somewhat limited and less active during retirement (84%), versus 72% of retirees.

Pre-retirees and retirees have similar expectations for experiencing greater incapacity. About two-thirds of pre-retirees (68%) and retirees (65%) expect to be severely limited and much less active.

Discussion

The responses to the survey indicate significant awareness that activity limitations may occur later in life, but at the same time many retirees are not contemplating preparation for those limitations. Periods of limitation will pose a greater challenge for individuals who do not have family members available to help care for them and those who do not have resources set aside to pay for assistance. The National Long-Term Care Survey results indicate the levels of limitation that can be expected on average. More information about the National Long-Term Care Survey can be found at: <http://www.nltcs.aas.duke.edu/>.

Do you think you will have a time in retirement when...?



About half anticipate that functional limitations will increase expenses.

Finding

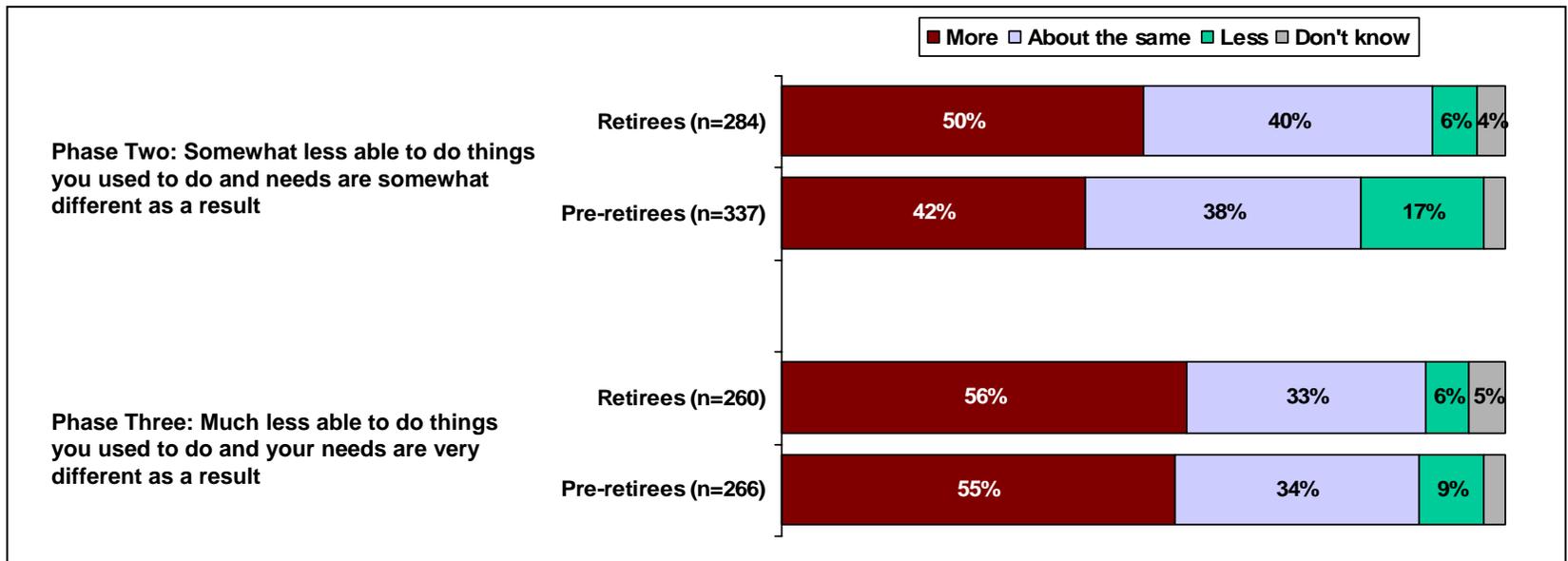
Among those expecting to experience the second, somewhat limited phase of retirement, pre-retirees are more likely to expect they will need *less money* (17% vs. 6% of retirees) compared to the previous phase. Among both pre-retirees and retirees who expect to spend time in the third, most limited phase of retirement, both expect similar levels of expenses.

Discussion

Whether individuals will require more financial resources in the later phases depends on several factors—how they spend their resources in the early phases, activities they pursue, housing choices and needs, health care expenses, and the extent to which outside paid help is needed. Those who spend much of their resources early in retirement on activities such as exotic travel and entertainment may find they are spending less for these pursuits later on. In terms of housing, there are a number of specialized options integrating service and care, although usually more costly than regular housing.

Much of care giving is provided by family members and friends, often with little or no cost to the recipient. However, individuals who require hired care giving services are likely to find it to be expensive. Likewise, retirees who enter assisted living and nursing homes can find such care to be quite expensive and it will depend, to some extent, on whether it is financed through long-term care insurance or other private means, or whether they have exhausted their assets and have to rely on Medicaid.

During this time [second or third phase], do you think you will need more money, less money, or about the same amount of money as before to cover your expenses? (Among those expecting to experience each phase)



Dependence on family or community services is expected to increase in the later phases of retirement.

Finding

Pre-retirees and retirees have similar expectations for needed services in the somewhat limited, less active phase of retirement, with one exception. Pre-retirees are more likely to expect to rely on family or community services (59%) than are retirees (46%).

Pre-retirees are more likely than retirees to expect they will need family or community assistance, paid assistance, home modifications and nursing care by the time they reach the least active, most limited phase.

Discussion

In the third phase of retirement, nearly all retirees will require some assistance. Care giving can be both intensive and costly. Often, help is needed several times daily for basic activities and in some instances, around the clock. For most retirees, such care is beyond what family and friends can provide. However, for some families care giving becomes the central daily activity of individual family members. Even when assistance is secured outside, family and friends may be called upon to supplement it. And, of course, many individuals will have no family or friends available to provide any level of care.

For housing, special senior options can offer a range of help and services. As would be expected, it is substantially more costly than housing without such services.

Community services are also available and represent another option for meeting these needs.

**I'm going to ask about some ways your needs might change during this time. Do you think you will need...?
(Among those experiencing each phase)**

	Less Active phase		Least Active phase	
	Retirees (%) (n=284)	Pre-retirees (%) (n=337)	Retirees (%) (n=260)	Pre-retirees (%) (n=266)
To modify your home or move to a home that is more livable	48	56	56	69
To depend on your family or community services for assistance	46	59	64	78
To pay someone to provide assistance	41	46	61	70
Nursing home or home health care	NA	NA	53	63

Pre-retirees think delaying retirement would increase their security.

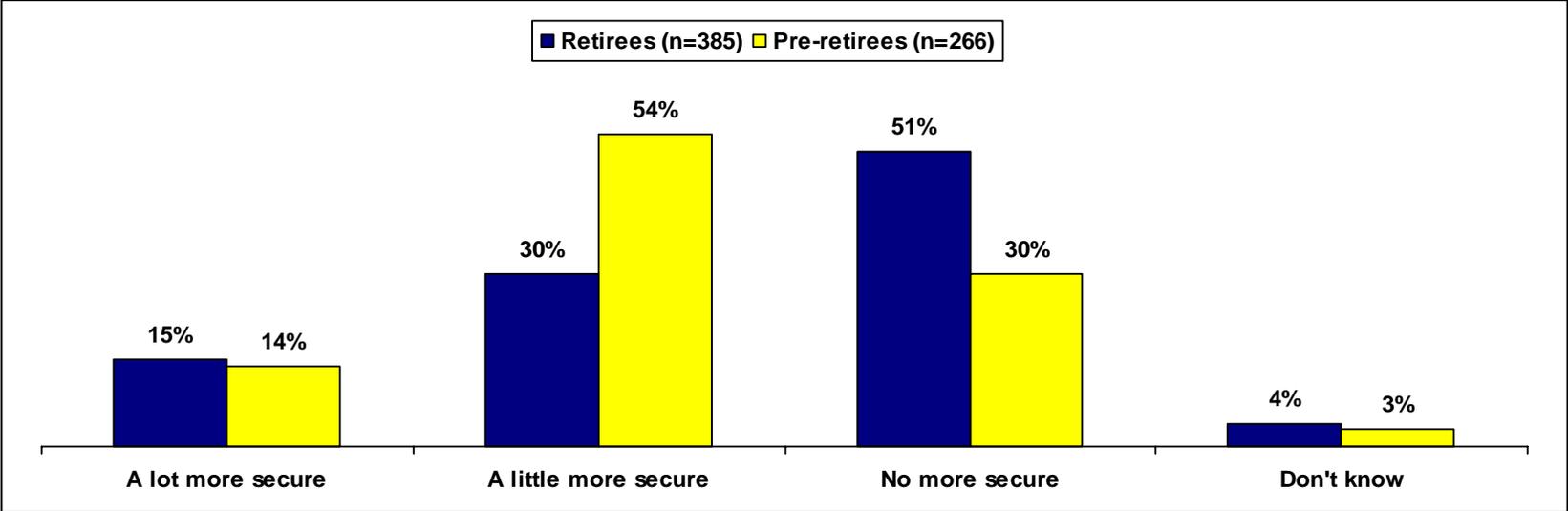
Finding

Pre-retirees are more likely than retirees to respond that a three-year delay in retirement would make their retirement finances *a lot more* or *a little more* secure (68% vs. 45% of retirees). Half of retirees feel delayed retirement would have made them *no more secure* (51%), while three in ten pre-retirees feel the same (30%).

Discussion

The 2007 Survey was the first in the series to explore the potential impact of delaying retirement. It is likely that many individuals are not well-positioned to evaluate the longer-term financial impacts of delaying retirement. This issue is particularly important to widows, many of whom experience a significant decline in economic status at the time of widowhood. As mentioned earlier and observed in other SOA research including focus groups, many individuals do not attempt to plan long-term, leaving them vulnerable later on.

Suppose you had retired/you were to retire three years later than you actually did/are currently planning. Do you think this would make your retirement financially...?
(Among those providing retirement age from primary occupation)



Source: 2007 Risks and Process of Retirement Survey

Much of the perception of added security comes from continuing employer health coverage.

Finding

Pre-retirees are more likely than retirees to feel, in every way they were asked, that delayed retirement would increase their financial security in retirement.

Pre-retirees and retirees both feel that continuing to receive health insurance from their employer would most increase their financial security (59% and 32% a lot more secure, respectively).

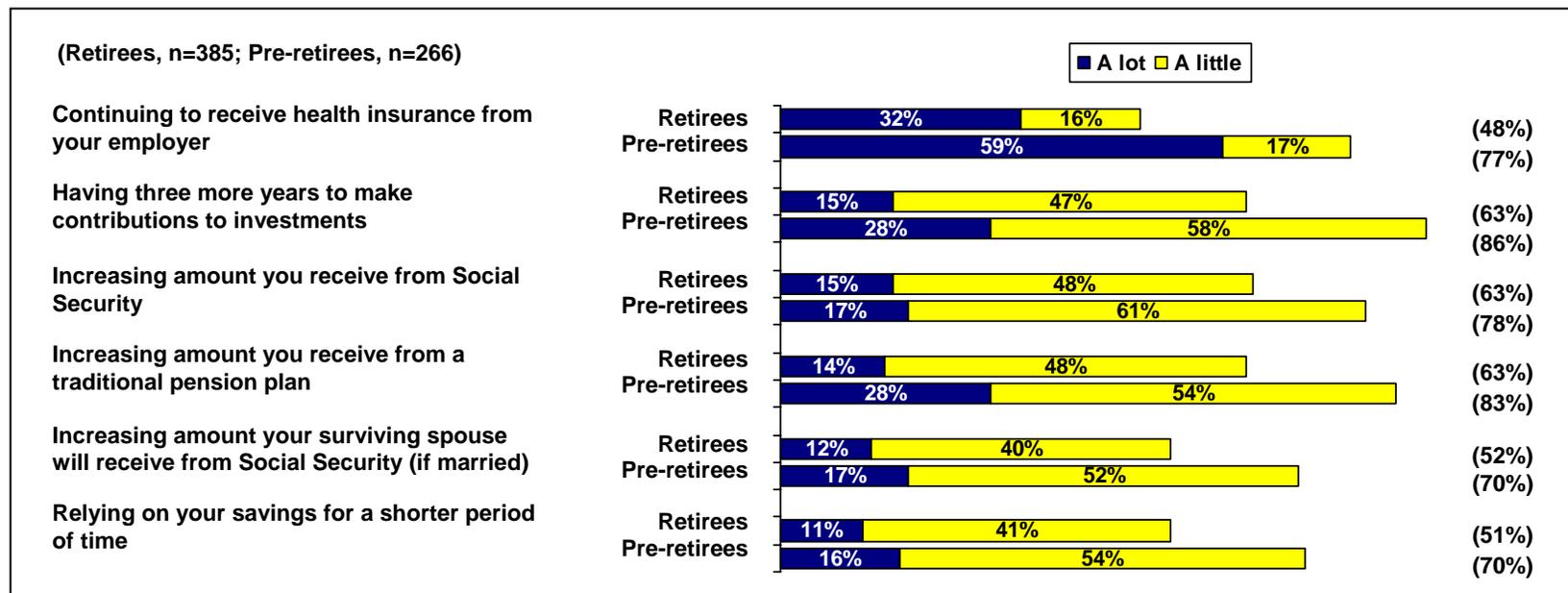
Discussion

For many workers, access to employer-provided health coverage is a significant driver of the timing of when they plan to retire, with lack of coverage posing a barrier to retirement. Given its immediacy and reporting in the popular press, health care financing is likely the most common factor of which the public is aware for retirement planning.

It appears likely that many individuals are not evaluating how their needs will vary over time. Yet certain events, such as a downturn in financial or real estate markets, may serve as an impetus for delaying retirement.

A Congressional Budget Office (CBO) Study, *Retirement Age and the Need for Saving*, May 2004, illustrates the impact of choosing retirement at ages 62, 66 and 70 for single persons and married couples. The age 62 couple needs 8 to 11 times annual income in assets in addition to Social Security if they are to retire and replace 80% of assets. At age 70, the amount needed is ½ to 2 times income. Much of the difference stems from higher Social Security benefits, immediate access to Medicare and more time to save. This reinforces the benefit of considering both timing and needs for planning purposes.

How much, if at all, would each of the following have increased your financial security in retirement if you retired three years later? (Among those providing retirement age from primary occupation)



Pre-retirees expect to retire at later ages, if at all.

Finding

Pre-retirees expect to work longer than retirees actually did, with the results illustrating dramatic differences between the two groups for certain responses.

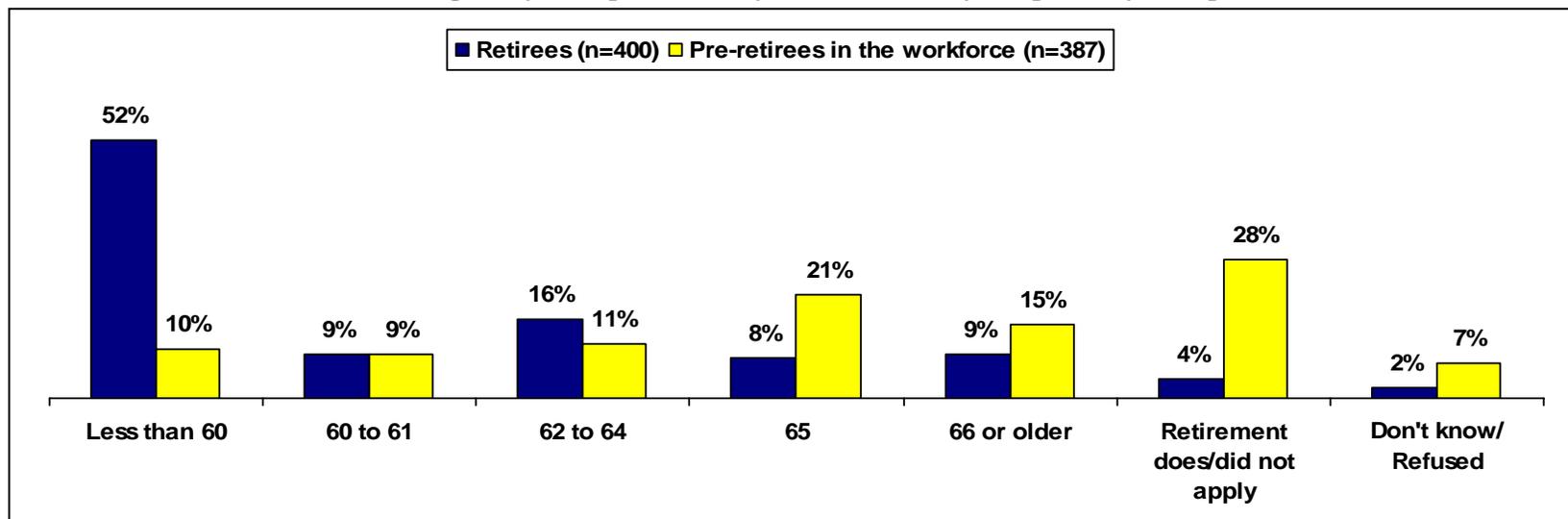
Half of retirees retired before age 60 (52%), while only one in ten pre-retirees currently in the workforce expect to retire prior to age 60 (10%).

The largest share of pre-retirees in the workforce report they plan to retire at or after age 65 (36%). Among those in the workforce, nearly three in ten pre-retirees say retirement does not apply to them—in other words, they expect to never retire (28%).

Discussion

These results suggest that some pre-retirees have expectations about work that will not be realized. Some will be forced to retire earlier than they expect due to poor health, lay-offs or care giving responsibilities. Consistent findings from the Retirement Confidence Survey illustrate historically that four in ten workers retire before they had expected, while results from a 2006 LIMRA International survey indicate that six in ten retirees had retired earlier than planned. Further, more individuals expect to work as part of retirement than those who actually do. In addition, some workers who hoped to work into later ages may simply decide that they are tired of working or unhappy with their job, and voluntarily retire.

At what age do you expect to/did you retire from your primary occupation?



Related Research

The next several slides discuss related research on the phases of retirement.

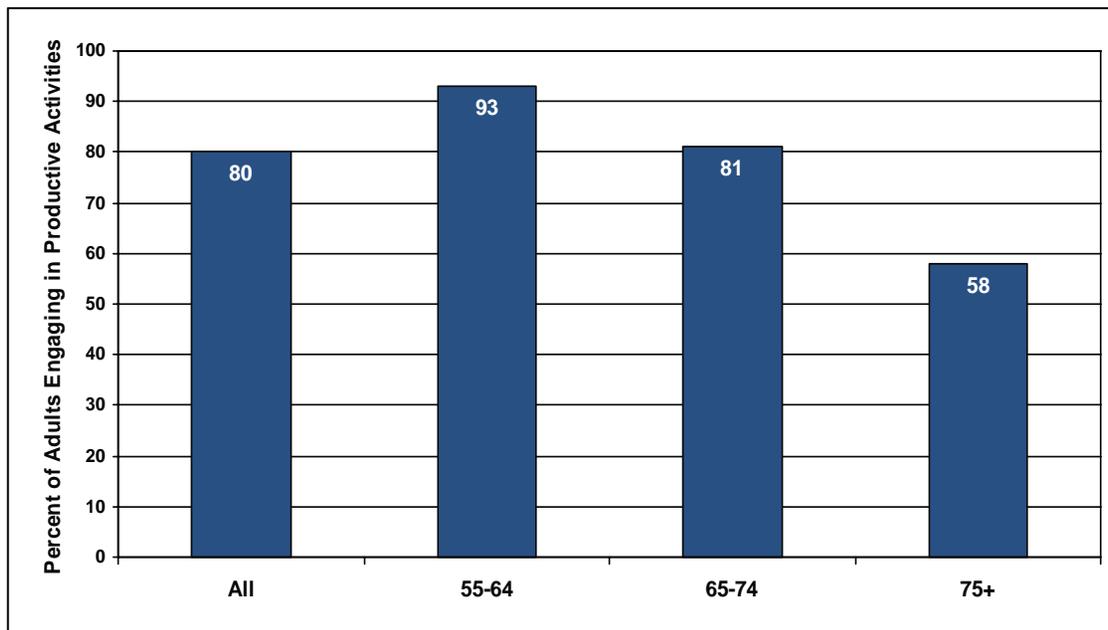
What is productive aging and how does it relate to the three phases of retirement?

Engagement and activity are important parts of successful aging. In an Urban Institute study, Barbara Butrica defines productive activities to include paid work, unpaid care giving and volunteering. By engaging in these activities, older persons contribute to the well-being of others in society, but also contribute to their own well-being. Personal satisfaction is greater among those who engage in productive activity, except for those who have multiple care giving responsibilities. Individuals with multiple care giving responsibilities have significantly lower satisfaction than others, perhaps driven by the fact that such activity is often involuntary. The analysis of productive aging by Butrica uses data from the HRS. Her analysis shows how activities vary by age and health status. As such, the range of productive activities at any time in retirement will be defined by health status and capabilities and hence, has a natural alignment with the three phases of retirement.

Eight out of ten adults age 55+ engage in productive activities.

Discussion

When older persons engage in productive activities, they continue to contribute to society and reduce the economic burden of an aging population. Such engagement can also be beneficial for their mental and physical health. Productive activities include paid work, care giving and volunteering. Eight out of ten (80%) adults age 55+ engage in these activities. The percentage of the population engaging in these activities declines with age. More than nine out of ten (93%) individuals ages 55–64 engage in productive activities, but the percentage declines to six out of ten (58%) for the population age 75+.



Source: Butrica, Barbara, How Do Older Americans Spend Their Time, Urban Institute

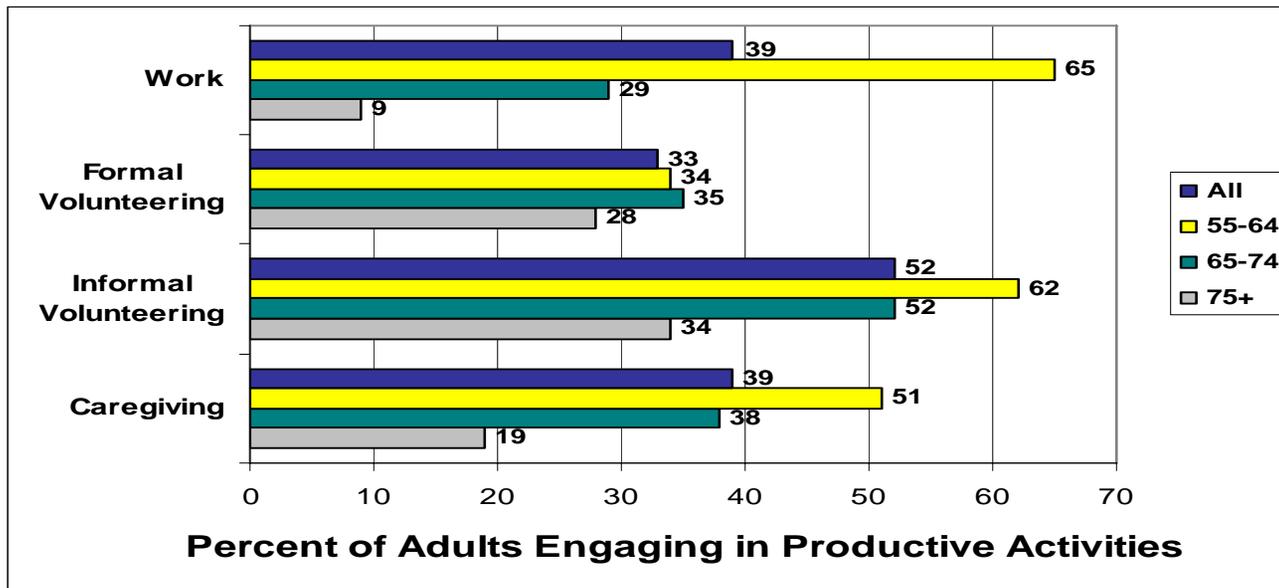
What older Americans do with their time varies by age...

Discussion

The productive activities in which older Americans engage vary considerably by age. Of the population age 55–64, more than six in ten (65%) work. This figure falls by more than half to three in ten (29%) for the population age 65–74 and falls to one in ten (9%) for the population age 75+.

The pattern of formal volunteering by different age groups, however, does not exhibit these sharp declines. For the population age 55–64, more than three in ten (34%) are engaged in formal volunteering, with basically no change for the population age 65–74 (35%). Even for the population age 75+, nearly three in ten (28%) engage in formal volunteering.

Care giving is an important contribution that older persons make, generally to other family members, and generally unpaid. Family-provided care giving is an extremely important aspect of the nation’s long-term care system. Of the population age 55–64, half (51%) provide care giving. Care giving can be a physically and mentally taxing activity, and the percentage of older persons providing it declines by age. Of the population age 65–74, nearly four in ten (38%) provide care giving, while for the population age 75+, two in ten (19%) provide care giving.



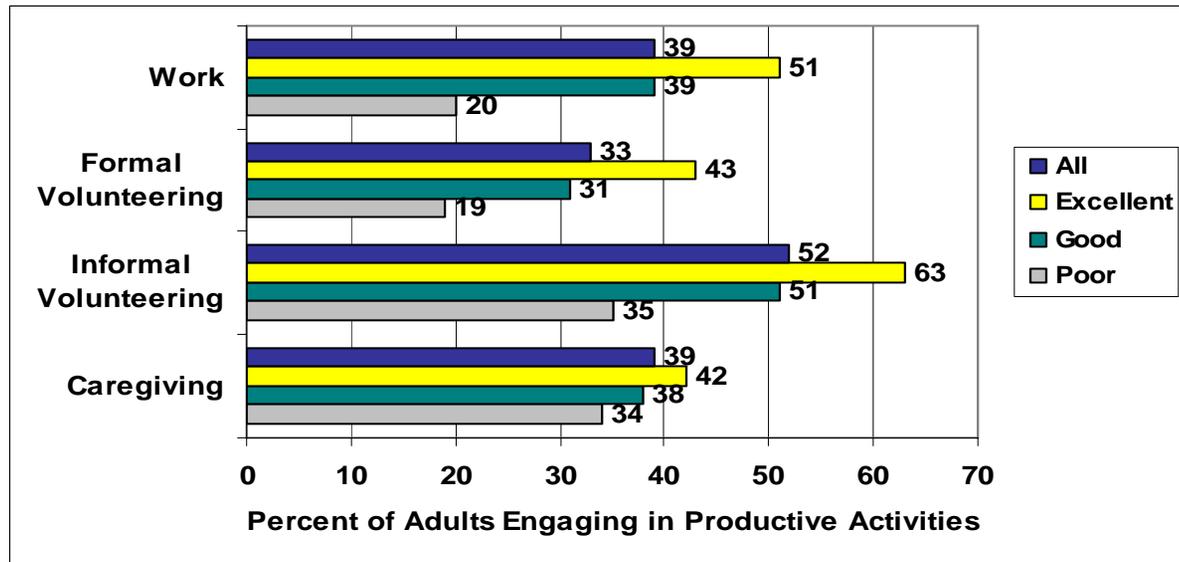
...and health status

Discussion

While health status has a substantial impact on some productive activities, its effect on other activities is relatively small. Health status has a large impact on the percent of adults working. Of the population age 55+, half (51%) of those in excellent health work, but this percentage declines to four in ten (39%) for those in good health and two in ten (20%) for those in poor health.

Formal volunteering may have some characteristics of paid work, and the effect of health on participation is of a similar magnitude for the two activities. While four in ten of those age 55+ in excellent health engage in formal volunteering, only two in ten of those in poor health do so.

Worsening health status also reduces the percentage of older persons who provide care giving, but the effect is much smaller. While four in ten (42%) of those age 55+ who are in excellent health provide care giving, three in ten (34%) of those in poor health provide care giving.

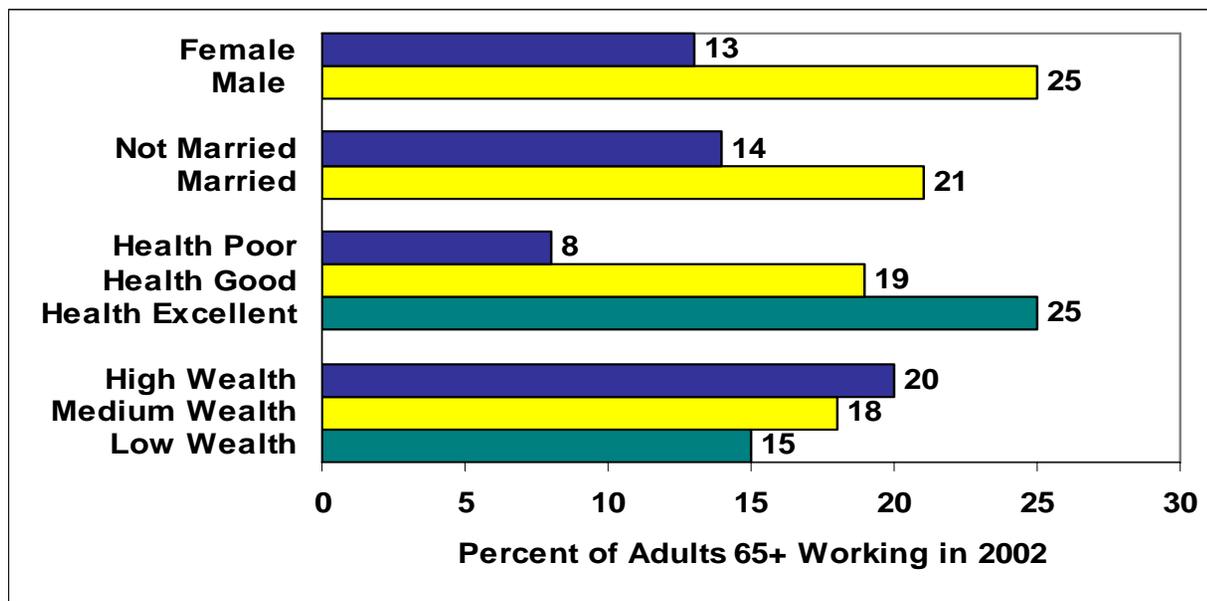


Who works past age 65?

Discussion

Older men are considerably more likely to be working than older women. In 2002, a quarter (25%) of men age 65 and older were still working. The percentage of women that age who were still working was half as large (13%). Individuals in excellent health were more likely to be working than others in their age group. A quarter (25%) of those in that age group who were in excellent health were working compared to a fifth (19%) of those in good health and less than a tenth (8%) of those in poor health.

While those with high wealth are the most able to afford retirement, they may also find the most satisfaction from their jobs. A fifth (20%) of those with high wealth were working, compared to roughly a seventh (15%) of individuals with low wealth. Perhaps because health and wealth are positively related to marital status, those who are married are somewhat more likely to be working at older ages than those who are not. A fifth (21%) of those who are married were working compared to a seventh (14%) of those who were not married.



Early vs. Late Exit from the Labor Force

Those individuals who retire early work fewer years and consequently have less resources, on average, to finance their retirement. By collecting a pension, if they have one, and Social Security at early ages, they receive reduced benefits relative to what they would have received had they postponed retirement. For a couple, early retirement results in reduced retirement income for them while both are alive and in reduced benefits for the surviving spouse. In many instances, this can contribute to the impoverishment of the surviving spouse.

Given this, what is the profile of baby boomers who have already exited from the labor force? A CBO study has investigated this issue.⁽¹⁾ It examined the Census Bureau's Survey of Income and Program Participation (SIPP) data to analyze individuals aged 50–61 who were not participating in the labor force in 2001. Survey participants self-reported their labor market status and whether they were disabled or retired.

Disability was the most common reason for early exit for both men and women. Men at ages 50–61 who reported not working were more than twice as likely to be disabled as retired. Women were somewhat less than twice as likely to be disabled as retired. Of the population aged 50–61, 9% of men and 10% of women reported themselves as disabled. Of that age group, 4% of men and 6% of women reported themselves as retired and not working at all during the previous year.

Those not in the labor force because of disability generally had much lower income, higher poverty rates, and fewer assets than those who were retired. About 80% of the men and women who reported themselves as disabled received Social Security disability benefits or were in a family that received Supplemental Security Income payments. By contrast, nearly three-quarters of retired men and one-third of retired women reported receiving income from their own defined benefit pension plan.

⁽¹⁾ *Disability and Retirement: The Early Exit of the Baby Boomers from the Labor Force*, CBO, November 2004

Moving Through the Phases of Retirement—The Interplay of Dreams and Housing

Many individuals look forward to retirement as the time when they can pursue activities they were unable to do previously and chase their dreams. Chasing dreams can come in many different forms. Examples include writing a novel, creating works of art, traveling around the world, taking up a new sport, snow birding in warm climates, tracing family history, etc. For most retirees, Phase One of retirement is usually the period of greatest opportunity for pursuing such dreams.

It is often said that success in retirement is inseparable from pursuing a portfolio of activities and regularly engaging in them. Like so many other aspects of individual personalities, the portfolio will naturally be custom tailored according to tastes and preferences. As well, being successful in this regard is usually strongly linked to the housing choices made in retirement.

When considering housing in general, it is clear that it represents a very important element to a successful and happy retirement. For many retirees, housing is both their largest asset and expense. Consequently, housing can help to further the pursuit of desired activities or provide a hindrance. In this regard, some key considerations include:

- Housing and care services are inter-related, and can be targeted to support Phase One, Phase Two or Phase Three of retirement.
- Housing location is the main determinant of access to transportation, activities, family and friends.
- Community centers can offer excellent individual and group activities and proximity to them determines whether they will be accessible.
- For certain pursuits, dedicated housing space may be needed. For example, space may be needed for a home office.
- Suitable housing may change during movement through the three phases of retirement. Factors to consider include proximity to family and friends, regional location, climate, available services, physical layout, and access to transportation, shopping and community centers.

Conclusion

For workers early in their careers, retirement is often conceived of as a distant and essentially routine period of time far into the future. As this report has described, the retirement experience can actually be quite dynamic and defined by distinctive phases. In considering how the retirement experience changes over time, this report has touched on several sources including:

- Results from the 2007 Survey directly related to the survey’s three defined phases of retirement.
- Analyses of the activities of older adults by Barbara Butrica based on data from the HRS Survey.
- References to health status changes and limitations from such sources as the National Long Term Care Survey.
- Discussion of the timing impact of leaving the labor force on finances in retirement as described in a CBO Study.
- Citation of an SOA monograph exploring spending and needs in retirement.

Taken together, this rich set of resources provides an important launching point for more comprehensive and informed retirement planning. Clearly, there is a need to expand traditional retirement planning to consider changes that occur during retirement beyond simply the time value of money.

As this report has reiterated, retirement and change are inextricably linked. It is important to be prepared for change, but understand that change by its very nature is often unpredictable. As mentioned, change can come in many forms in retirement—

Both good:

- Free time to pursue dreams
- More time to spend with family and visit friends
- Opportunities for greater participation in volunteer activities
- Moving to desirable parts of the country
- Extended travel both domestically and abroad

And bad:

- Declining health
- Loss of loved ones
- Need for special housing
- Insufficient financial resources

A broad theme that has emerged from the 2007 Survey and other related SOA research is the need to encourage long range thinking and planning, rather than a short term, fatalistic mindset. Although change is inevitable and preparing for it is not infallible, those who do so should find themselves better equipped to experience both the highpoints and lowpoints of the three phases of retirement.

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To Obtain a Copy of the Complete Survey Report

The 2007 Risks and Process of Retirement & Survey report may be obtained from the web site of the Society of Actuaries at www.soa.org.

Glossary

ADEA—The Age Discrimination in Employment Act, 1967 and as subsequently amended.

Baby Boomers; Baby Boom Generation—Those born in the U.S. from 1946 through 1964.

Defined Benefit Plan—A retirement plan in which the pension benefit is expressed as a monthly or other periodic amount based on a formula typically reflecting earnings and years of service.

Defined Contribution Plan—A retirement plan in which the benefit is expressed as a lump sum amount based on the accumulation of employer and employee contributions with investment earnings. Many of these plans allow employees to save on a pre-tax basis with an employer matching contribution.

Full Retirement Age—Defined by Social Security as the age at which monthly retirement benefits are available in full without reduction for early retirement. For birth cohorts through 1937, this has been established at 65. For those born in 1938, full retirement age for Social Security is currently set at 65 years and two months, increasing an additional two months for each subsequent birth year, reaching age 66 for those born from 1943 through 1954. It increases again by two months for each subsequent birth year after 1954, reaching age 67 for those born in 1960 and after.

High Income—An arbitrary amount of income or earnings which, for the purpose of these reports, is assumed to be in excess of \$100,000 annually for a family of two.

High Net Worth—An arbitrary amount of retirement savings, including defined contribution pension account balances, aggregating \$1 million or more for a family of two.

Inflation—Annual increase in the Consumer Price Index as measured by the U.S. Bureau of Labor Statistics; it may be for all consumer items, or for specific subsets such as medical care.

Joint and Survivor Annuity—An annuity issued on two individuals under which payments continue in whole or in part until the second of the two dies (also called joint life annuity).

Life Expectancy—The average future remaining lifetime for a cohort of people at a specific age. For all Americans, life expectancy at birth in 2005 was 78; for females 80, and for males, 75. At age 65, life expectancy for males is 17 years, and for females, 20 years. Source: U.S. Bureau of Census Tables.

Maximum Life Span—The maximum possible extent of human longevity, generally taken by gerontologists and actuaries as 120 years. Two thoroughly documented cases are of Shigechiyo Izumi, who died in 1986 at the age of 120, and of Jeanne Calment, who was born in Arles, France in February, 1875, and died there also in August, 1997 eight days short of 122½.

Glossary

Normal Retirement Age—For most traditional defined benefit pension plans, this has been established as 65, the same age at which full Social Security benefits were available for birth cohorts through 1937. See also, ‘Full Retirement Age.’

Phased Retirement—There is no standard agreed upon definition of phased retirement. It is used to describe such arrangements as working part-time before retirement or retiring and then taking a new job, becoming self-employed or working on a limited basis for a former employer. Viewed broadly, it may include reducing one’s work schedule before retirement, changing duties at normal retirement age, working part-time in retirement or some combination of approaches to gradually phase out of the labor force. The definition of phased retirement is typically limited to situations where a partial pension payment is available or to a situation where the individual is working for the same employer as before.

Pre-retiree—Anyone still in the work force who has reached an arbitrary age—typically set around 50—at which planning for retirement begins to become a serious prospect. For the purposes of the 2007 Survey, pre-retirees are at least age 45.

Qualified Plan—A pension plan under which contributions meet certain standards set by the IRS to be tax deductible for the plan sponsor and are tax-deferred to the participant. These plans are subject to numerous rules in order to maintain the favorable tax status.

Retiree—Traditionally, a person who, having attained a certain age—often, but not necessarily normal retirement age—has left the labor force, with no expectation of returning. Today, many retirees leave full-time work, but continue with some work. As retirement is changing, there is no clear definition of retirement, and self-declaration of status produces varying definitions when based on labor force participation criteria. Others tend to consider themselves retired if they are collecting retirement benefits. For the purposes of the 2007 Survey, respondents were considered retirees if they classified themselves as retired in an employment status question or were employed, but responded that they had retired from a primary occupation.

Retirement—This is generally defined as exiting from one’s job or occupation, typically at an age at which the individual has no expectations of returning full-time to the labor force. For the purposes of the 2007 Survey, retirement is based on exit from a primary occupation or the self-definition of respondents.

Reverse Mortgage—An arrangement in which a homeowner borrows against home equity and receives regular monthly tax-free payments from the lender. Also called reverse-annuity mortgage or home equity conversion mortgage.

Risk—Exposure to the probability of an event that will occur with certainty, but with unknown timing—death—or that may or may not occur, such as accident, sickness, becoming disabled or outliving one’s assets.