



Society of Actuaries

**Key Findings and Issues: Phased Retirement and Planning for the Unexpected
2005 Risks and Process of Retirement Survey Report
April 2006**

Overview

Long and widely heralded, the Baby Boom generation's aging to retirement is about to materialize. Issues of retirement security are assuming ever growing importance to America, most notably to its economy and to all families with members already retired or facing retirement. Compounding these issues, the concept of retirement is itself changing as people at traditional retirement ages often choose to reinvent their lives. One example, and a growing trend among workers, is what is commonly known as "phased retirement," where retirement is no longer initiated by a one-time event, but rather occurs through a gradual process.

An understanding of the risks associated with retirement, what people mean by retirement, and how they retire is particularly important today in light of an 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 gradual retirement has received little attention. This report provides key findings from the *2005 Risks and Process of Retirement Survey* related to what people mean by retirement and how they retire. It also examines the significance of potential labor shortages and the possibility of people working longer. The discussion sections in this report include input from all organizations that supported the studies.

As part of this project, the Society of Actuaries had research on public attitudes toward retirement conducted on its behalf in 2001, 2003 and 2005 by Mathew Greenwald & Associates, Inc., and by the Employee Benefit Research Institute (EBRI). The purpose of the 2005 study was to evaluate Americans' awareness of possible risks, how this awareness had changed since 2003, and how it affects the management of their finances with respect to retirement. Additional reports cover the risks of retirement, women and longevity. The 2001, 2003 and 2005 studies separately analyzed current retirees and those not yet retired, who are referred to as pre-retirees in this report. This report looks primarily at the 2005 study and other research to explore the emerging process of retirement. Retirement from the individual's primary occupation is the definition of retirement used in the 2003 and 2005 studies. The 2005 study was conducted through telephone interviews of 602 Americans age 45 to 80 (302 retirees and 300 pre-retirees). Households were selected for participation from a nationwide targeted list sample. The margin of error for study results, at the 95% confidence level, is ± 6 percentage points for questions asked of all retirees or all pre-retirees.

The results of the *2005 Risks and Process of Retirement Survey* apply to Americans, on average, and do not provide specific insights into behaviors and values of high net worth individuals. Only 2% of the sample report \$1 million or more in savings and investments. Four percent of pre-retirees and 9% of retirees report savings and investments of between \$500,000 and \$1,000,000. Fifteen percent of pre-retirees and 10% of retirees report household incomes of at least \$100,000. At the low income end of the spectrum, 15% of pre-retirees and 21% of retirees report incomes less than \$25,000.

Factors Affecting Future Retirement Ages

Life expectancy increased dramatically during the twentieth century, and continues to lengthen. Opinions differ about how rapidly it will continue to increase, but some experts believe that as much as an additional year of life might be experienced in every decade. ^[1]

Social Security normal retirement ages for full benefits are legislated to increase to 67 for persons born in 1960 and later. The appropriate definition of retirement age is the subject of disagreement and debate. Many people are already working beyond normal retirement age, some out of choice, others of necessity. Factors influencing societal choices on the appropriate retirement age include the following:

- Retirement ages should reflect increases in life expectancy.
- Some people become disabled and are no longer physically capable of working. ^[2]
- For some occupations it is considered unrealistic to expect people to work longer because of the physical or mental demands of their job.
- America will need the workers.

For many people, retirement has already become a matter of phasing out work over time, rather than an immediate and total exit from the labor force. This report explores that behavior. Retirement ages can be viewed in several different ways—as the point when phase-out starts, as the point when work is reduced by some agreed on amount such as 50%, or as the point beyond which the retiree is no longer being paid to work among others.

Based on today's experience, it seems reasonable to expect that in the future a significant percentage of older Americans such as those aged 70–75 will do some paid work, but for many of them it will be part-time or part-year or both. After age 75, paid work will probably remain relatively rare, at least in the near future.

1. Life expectancy for those born in the US in 1900 was 48 for males and 50 for females; today it exceeds 75 for males and 80 for females. US Population tables for 2003 show an increase of about more than one year of life expectancy for males age 65 compared to males age 65 in 1993; for females, the corresponding increase was about three-quarters of a year. Similar improvements are reflected in mortality tables developed by the Society of Actuaries.

2. According to a study by the Congressional Budget Office of people aged 50–61, about 9% of men and 10% of women were classified as disabled. Disability and Retirement: The Early Exit of Baby Boomers from the Labor Force November, 2004

Older Workers in a Changing Labor Market

Surveys show that many more people, who are not yet retired, say they want to work in retirement than those who are working now. At the same time, more than 40% of retirees do some work after retirement. According to the Retirement Confidence Survey, nearly 4 in 10 Americans end up retiring earlier than planned, and studies have shown that older persons often have a challenging time finding new work. One feature of the economy that will affect these work patterns beyond normal retirement age is growth in the aggregate labor force. While the US labor force grew by an average of 1.6% each year from 1950 to 2000, the Department of Labor's Bureau of Labor Statistics projects that this will slow to 1.1% per year from 2000 to 2010, and to only 0.6% per year for the entire first half of the twenty-first century.

By contrast, a modest upward trend is projected for those aged 65–74 participating in the labor force, increasing from approximately 20% in 2005 to 23% by 2030. Labor economists, however, offer a wide spectrum of opinions as to the extent to which these changing patterns will lead to actual shortages of labor that could slow economic growth.¹³¹ For those making personal decisions as to whether to work past normal retirement age, what is more important is not so much these macro-economic trends, but rather individual prospects for the demand for their particular knowledge, experience and skills.

3. Readers interested in differing views as to labor force participation and the employment implications for those over 65 may wish to consult a) Edward E. Potter, President of the Employee Policy Foundation, in an October 11, 2001 letter to John Boehner, Chairman, Committee on Education and Labor, US House of Representatives, for concerns of labor shortages, and b) Peter Cappelli, Professor of Management and Director of Wharton's Center for Human Resources: "Debunking the Myth," Knowledge at Wharton, August 27, 2003, for an opposing viewpoint.

Phased Retirement

Phased retirement is becoming a topic of increasing importance to the pension community. Many individuals choose their own approach to phased retirement, by working part-time before retirement or by retiring and then taking a new job, becoming self-employed, or by working on a limited basis for their former employers. There is no standard agreed upon definition of phased retirement. Viewed broadly, it can include phasing out of the labor force either by reducing one's work schedule before retirement, by changing duties, or by working part-time in retirement. When people say they are retired and still working, this raises many questions of definition. This study provides insight into current approaches for phased retirement.

Few private sector employers have created formal programs for phased retirement, and for those with conventional defined benefit plans, there are several barriers to doing so:

- Legal prohibition from partial payment of defined benefit pensions while people continue to work prior to normal retirement age;
- Uncertainty about legal requirements with regard to rehiring of retirees;
- Uncertainty about the application of ADEA (Age Discrimination in Employment Act, 1967) to special programs for phased retirees and the absence of ADEA safe harbors.

Several employment arrangements enabling phased retirement—job-sharing, reduced work schedules, and rehiring retired workers on a part-time or temporary basis—can be accommodated under current law. Management of pensions under these arrangements is sometimes difficult and often the individual needs to retire from one firm and work for another, or retire and return under an alternative work arrangement. Policymakers realize that this is an important issue, at least to some stakeholders.

Phased retirement plans already exist informally.

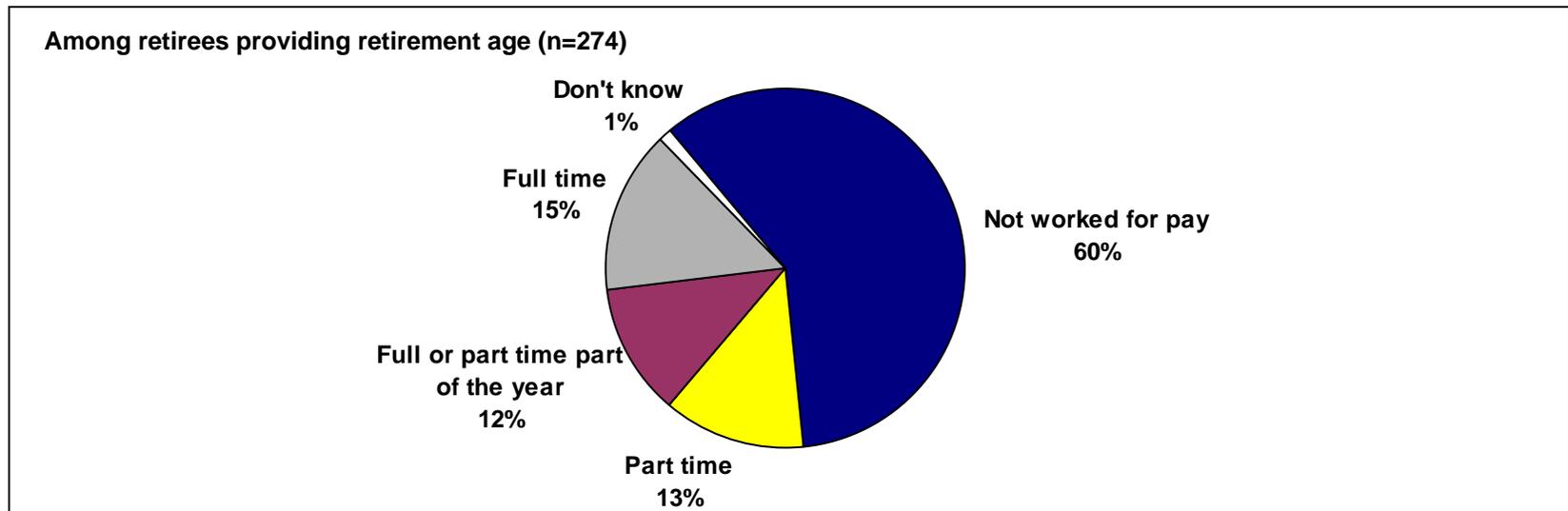
Finding

A large number of previously employed retirees are still working at least sporadically during the year (39%). More than one in seven indicate that they work full time throughout the year (15%), and almost as many report working part time (13%). About one in eight say they work full or part time only part of the year (12%). However, the majority (60%) have not worked for pay at all in the past 12 months.

Discussion

The very concept of retirement is undergoing major, almost revolutionary changes in the twenty-first century, as more Americans reinvent its fundamental meaning. For some people, it means continuing work, though not on a full time basis, nor necessarily in their pre-retirement occupation. Those fortunate to not need the added income often do volunteer work, which they may find personally rewarding. Others retire with the expectation that they can find work, only to discover that finding remunerative employment is more difficult than they expected. Some simply give up, and do not follow through with their plans to find work, while others become partly or totally disabled, or find that much of their time is spent caring for spouses or other family members.

In the past 12 months, have you worked for pay . . . ?



Phased retirement plans are likely to increase in the future.

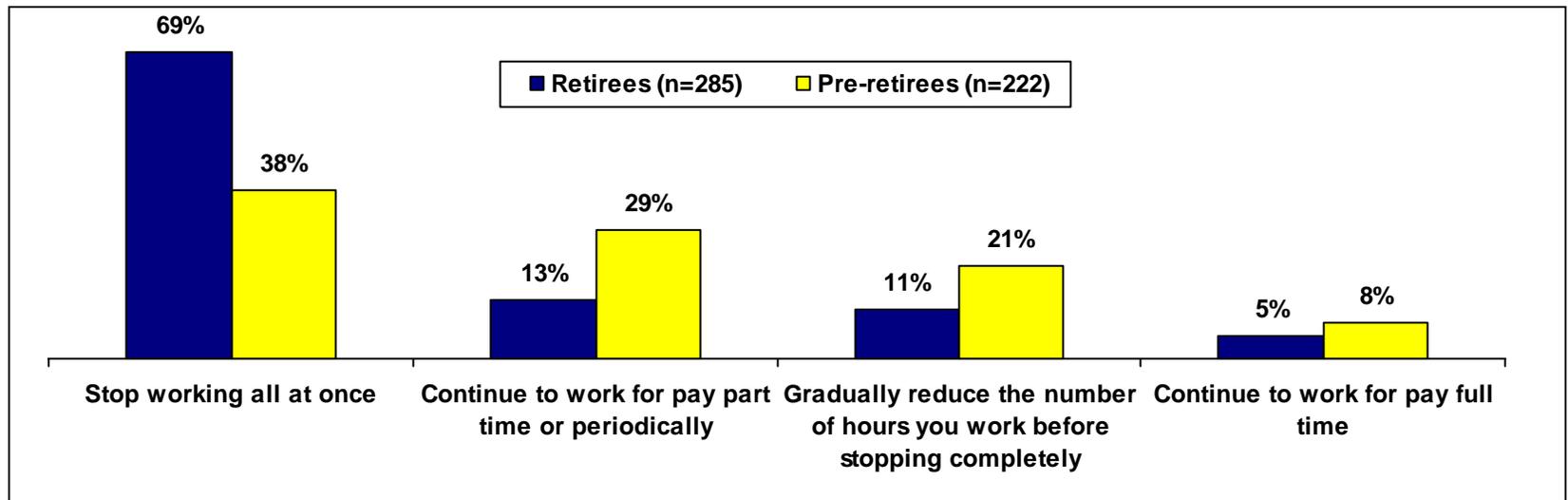
Finding

A larger share of retirees (69%) than pre-retirees (38%) say that they retired or expect to retire by ceasing work all at once. More often than retirees, pre-retirees expect that they will retire gradually by either continuing to work part-time in retirement (29% pre-retirees, 13% retirees) or by reducing their working hours until they stop working completely (21% pre-retirees, 11% retirees). Few pre-retirees (8%) and retirees (5%) expect to work or did actually continue to work full-time in a paying job.

Discussion

The percentage of pre-retirees who say they intend to continue working beyond normal retirement age is about double the percentage of those who are already retired and actually working. While some increased participation in the labor force can be expected among those past normal retirement age, its extent will not likely match their pre-retirement intentions. Phased retirement options and the availability of part-time employment will become increasingly important especially for those who shouldered high fulltime workloads.

Which statement comes closest to describing how you retired/plan to retire from your primary occupation?



Phased retirement plans encompass a variety of working arrangements.

Finding

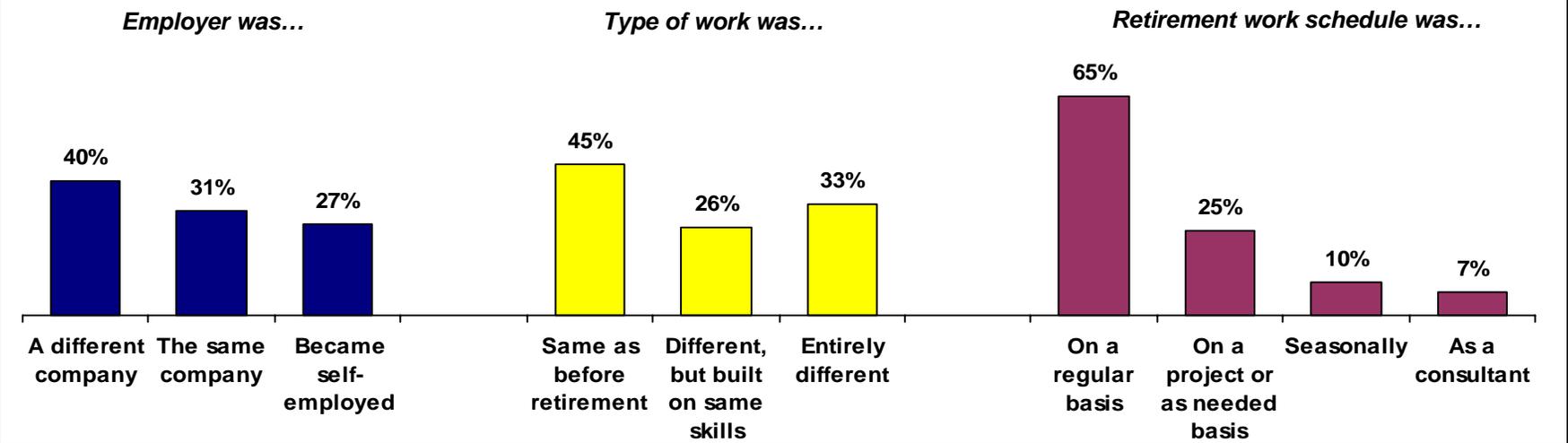
Among the roughly three in 10 retirees who report that they work or had continued to work in retirement, almost one-third indicate they worked for the same company (31%), while four in 10 report accepting employment with a different company (40%). A majority say they either continued to do the same type of work they did before retirement (45%) or did work that was different from their pre-retirement occupation, but that built upon the same skill sets (26%). Two-thirds of retirees who continued to work in retirement say they maintained a regular schedule (65%), either working full-time (31%) or on a reduced schedule (34%).

Discussion

Approximately three people in ten say that they continued working past their normal retirement age. This is higher than the 20% labor participation rate in 2005 reported by the Department of Labor's BLS for those above 65, but the three in ten would include those who initially continued working past their normal retirement age, but subsequently retired. The rationale for preferring to work for the same employer versus a different one in a period of phased retirement was not specifically explored in the survey, but could include the desire to maintain social ties among other reasons. The opportunity to gradually phase into retirement appears important for many Americans, and while such arrangements often exist informally, policies to enable retirees to be paid for such work while still collecting traditional pension benefits are not well defined.

When you retired, which statement comes closest to describing what you actually did? Did you work for pay in retirement...?

Among retirees participating in phased retirement (n=81)



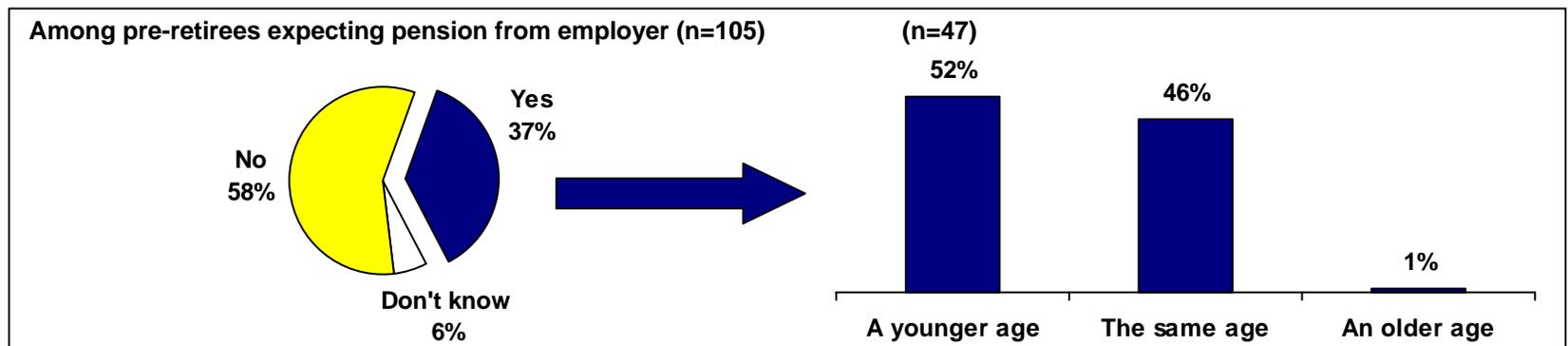
Phased retirement plans may be affected by available pension options.

Finding

Among pre-retirees who state that they expect to receive pension income or a lump sum pension payment from an employer when they retire, nearly six in 10 indicate that changing the law so that they could receive part of their pension while cutting back on their work hours and compensation would *not* alter their plans for retirement (58%).

Of those who say they would alter their retirement plans as a result of a change in pension law, most indicate they would retire at a younger age (52%). Nearly as many suggest the pension law change would have no impact on their retirement age (46%), while a negligible number would choose to delay retirement (1%).

If this law were changed so that you could cut back on your working hours and therefore get less pay, but at the same time start collecting some of your pension, would this change your plans for retirement?



Discussion

Although the number of pre-retirees who expect to take partial pensions as a way of phasing into retirement has decreased slightly in recent years, the issue of phased retirement is of increasing importance to those Americans wishing to design their own solutions to such arrangements. A serious barrier to employees phasing into retirement is the legal restriction on distribution from a defined benefit plan while the employee is still working. Only by electing early retirement and either working for another employer, or for the same employer but as a consultant or part-time employee, can workers draw on defined benefit pensions as they phase gradually into retirement.

These challenges will likely diminish in the future, as more workers come to depend increasingly on defined contribution plans which, after age 59, are allowed to offer withdrawals while people are still working.

Timing of Retirement

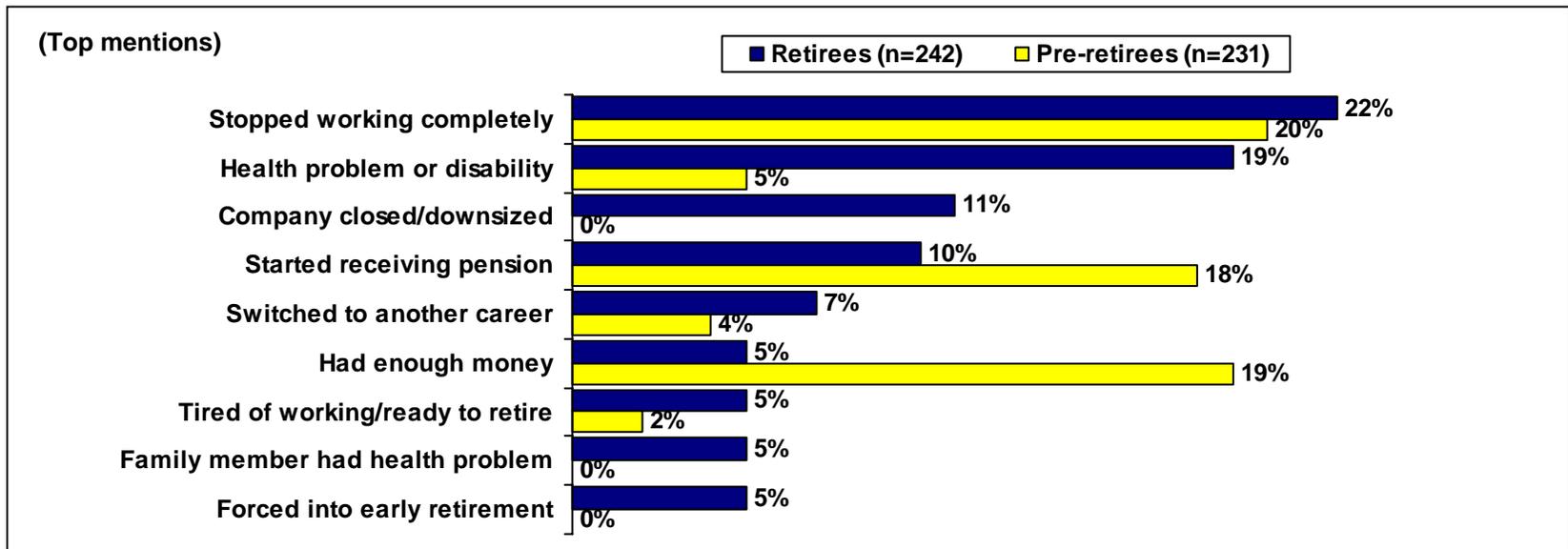
Finding

When asked in an open-ended question about what event or situation might occur that leads them to say they will retire at the age that they plan, pre-retirees tend to cite such events as stopping work completely (20%), having enough money to stop working (19%), starting to receive a pension (18%), and meeting age or years of service requirements (12%). They tend to ignore the more negative experiences that were deciding factors for many retirees: a health problem or disability (19%), company closure or downsizing (11%), health problem of a family member (5%), and being forced into early retirement (5%).

Discussion

Many pre-retirees plan to retire at a later age than that at which current retirees actually left the work force. But, like an increasing number of those already retired, these pre-retirees may have little or no control over their actual retirement date. Forced retirement, which may result from companies closing, merging or downsizing, from the individual's personal health status, or for other reasons, will continue to limit retirement choices for many employees. With the need for individuals to assume increased responsibility for their retirement security, unplanned early retirement will present even more serious challenges for those with inadequate financial security arrangements.

What event or situation occurred/will occur that leads you to say that you retired/will retire at that age?



Health and Financial Considerations

Finding

When health is mentioned in a close-ended question regarding factors that lead to retirement, pre-retirees do tend to give it considerable importance. Furthermore, pre-retirees are more likely in 2003 than in 2001 to say that the more important considerations about when to retire are:

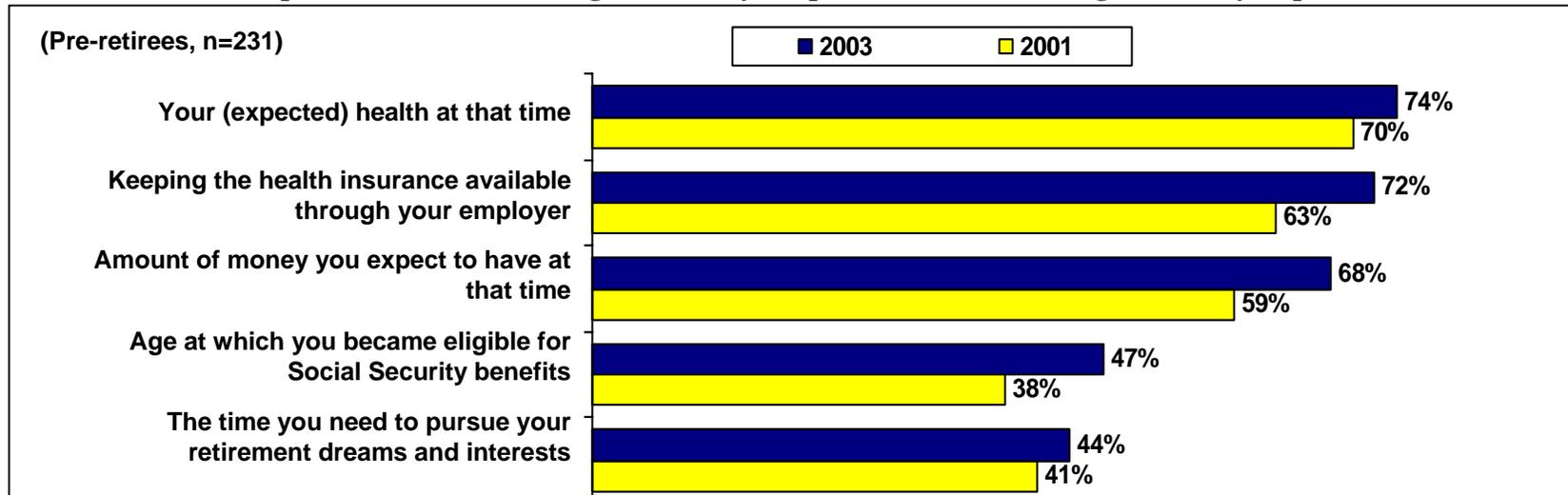
- The amount of money they expect to have at the time they retire;
- The option of keeping health insurance through their employer; and
- Eligibility age for Social Security

There are other indications that finances may have become more of a concern for pre-retirees than in the previous study. Pre-retirees were slightly more likely in 2003 than in 2001 to say they will never retire (8%, up from 4%), and they were more apt to report having accumulated less than \$50,000 in savings (39%, up from 28%).

Discussion

Health is an important factor in most people's decision as to whether or when to retire. However, financial security issues, specifically, the amount of funds they have available, options to maintain employer sponsored health coverage, and Social Security eligibility are cited as the overriding considerations. Past studies have shown that market conditions do not significantly change confidence about financial aspects of retirement, but adverse conditions may cause pre-retirees to defer retirement in order to accumulate more funds.

How important are the following factors in your plan to retire at that age? (% very important)



Factors affecting Decisions to Fully or Partially Retire—Anticipation vs. Reality

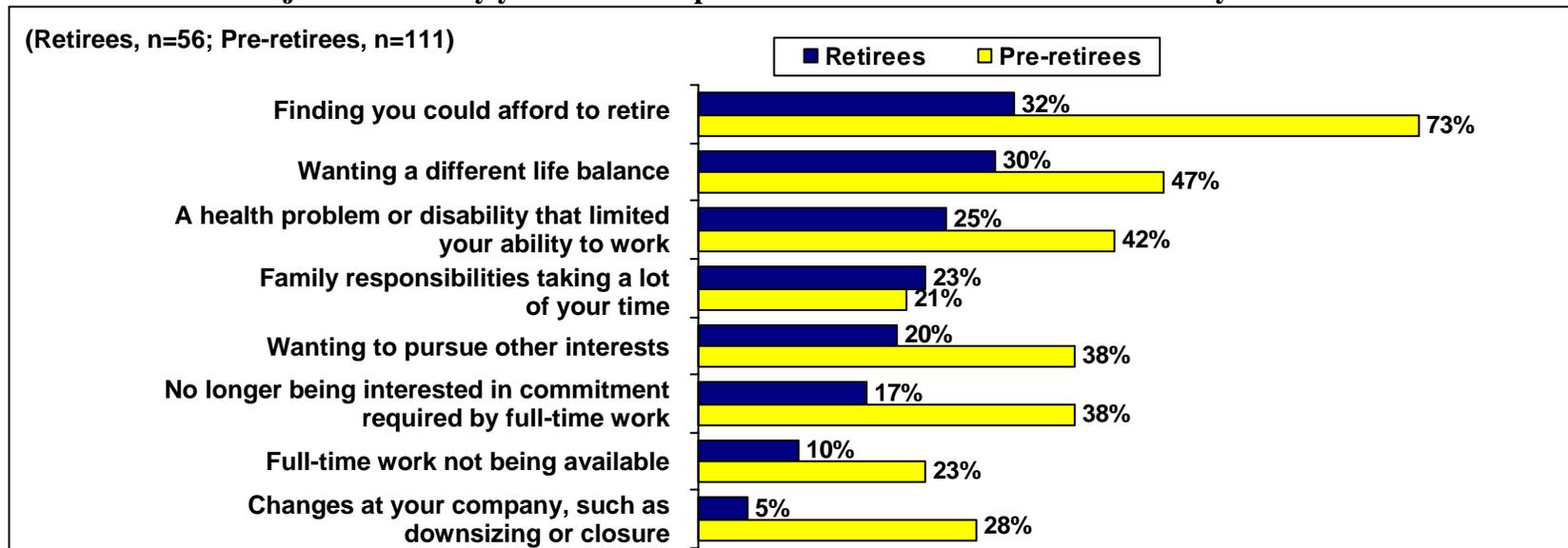
Finding

While almost three-quarters of pre-retirees anticipate that being able to afford retirement would be a reason to cut back on their hours, only one-third of those already retired cited it as a major reason. Forty percent of pre-retirees plan to exit the work force completely, while almost sixty percent anticipate working in some capacity after reaching normal retirement age.

Discussion

Many pre-retirees have difficulty envisioning the factors that may lead to their retirement. While acknowledging factors such as health, or the availability of suitable employment opportunities, they remain optimistic that they will have control over their own retirement decision.

Major reasons why you reduced/expect to reduce the number of hours that you work



Early Exit from the Labor Force

Other Study Findings

The Congressional Budget Office (CBO) has investigated why some baby boomers have already exited from the labor force. ^[4] It examined the Census Bureau's SIPP (Survey of Income and Program Participation) database to look at people aged 50–61 who were not participating in the labor force in 2001. Status was based on self-reporting, and people were classified as retired or disabled. Some of the key findings included:

- 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. Disability was the most common reason for early exit among both men and women.
- Of the total population aged 50–61, 14% of men and 24% of women were reported as not being in the labor force at any time during the year. Of the men in the study, 32% were retired, 64% were disabled, and 4% reported other reasons for not being in the labor force. Among the women 26% were retired, 40% were disabled, and 34% reported other reasons. People who gave reasons besides disability or retirement generally indicated that they were caring for others or were not interested in working.
- Men at ages 50–61 reported as not working were twice as likely to be disabled as retired. Women were about one-and two-thirds times as likely to be disabled as retired. Of the total population aged 50–61, 9% of men and 10% of women were reported as disabled. Of the total, 4% of men and 6% of women reported themselves as retired and did not work at all during the year. The study provides no information about what percentage may have reported themselves as both retired but also having worked during the year. Nearly three-quarters of retired men and one-third of retired women received income from their own defined benefit pension plan.
- 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 program payments.

Working Longer—The Puzzle

Many factors are changing the environment for working beyond normal retirement age, and questions about how long people will work and what they say about their plans and decisions often have no ready answers. Key points are:

- Periods of retirement have lengthened dramatically over the last fifty years. Many experts feel that raising retirement ages so that periods of retirement track longer life spans is appropriate.
- Many workers say they expect to retire at 65 but the experience from current retirees indicates that they are more likely to retire earlier than age 65.^[5] More people say they plan to work in retirement than actually do work in retirement.
- When people work in retirement, retirement takes on a different meaning, and it can be viewed as reinventing oneself.
- More than seven in ten workers say they expect to retire gradually or work as part of their retirement. While many people want to work in retirement, they may be seeking different job options and working conditions other than regular full-time work. While longer average work life is certainly a possibility for the future, it remains to be seen whether those who can and want to work longer will have access to jobs that enable them to do so. It also remains to be seen whether public policy will accommodate more flexible options.
- About four in ten retire earlier than planned. Of people aged 50–61 who are not in the labor force, many more are disabled than retired. If people will work longer and retire later, more people are likely to be disabled before they retire. In addition, some people will be in jobs with heavy lifting and other physical demands, and they will burn out before retirement age. Later retirement is not feasible for everyone.
- Some people (13% in the 2005 Risk and Process of Retirement Study) say they do not plan to retire, but realistically few people will want to continue working beyond age 75. Of those who want to work, many may not be able to. Many people will have more than ten years of life beyond that point.
- With the Baby Boom reaching traditional retirement ages, the balance between people aged 15–64 and those over 65 will shift dramatically. With no change in the retirement age, fewer people will be working to support more people in retirement.

The 2005 study provides results largely consistent with the 2003 study. Both provide insights into how people are leaving the labor force and the growing trend towards this becoming a more gradual process. Further, both reinforce that, in many instances, workers are forced to leave earlier than they wished. Policymakers need to focus their efforts in this area by passing legislation to encourage better options for workers. In addition, it would be beneficial for employers to educate workers on the actual experiences of retirees in this process as one means of providing more informed decision-making at retirement.

5. Center for Retirement Research, Data Profile #4, April 5, 2004

Acknowledgements

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To Obtain a Copy of the Complete Survey Report

The 2005 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 US from 1946 through 1964

Defined Benefit – 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 - A retirement plan in which contributions to each participant's account are typically a percentage of earnings, subject to certain statutory limits in the case of qualified plans. Many of these plans allow employees to save on a pre-tax basis with an employer match.

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 US 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: US 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 the Japanese, 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.

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'

Glossary

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 2005 Risk and Process of Retirement 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 2005 Risk and Process of Retirement Survey, respondents have been classified as retired either through self-definition or if they have retired from their primary occupation.

Retirement – Exit from one's job or occupation, typically at an age at which the individual has no expectation of returning full-time to the labor force.

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.

SIPP - The Census Bureau's Survey of Income and Program Participation.