

May 2008, Issue No. 67

IN THIS ISSUE

Chairperson's Corner

Your Votes are In!

Retirement 20/20 Update—
The Measurement
FrameworkAcademy/SOA Roundtable
Discusses Public Pension
Plan DisclosuresPublic versus Private Sector
OPEB AccountingWomen and Retirement:
Greater Challenges and More
Individual Responsibility

Technology—Then and Now

Letter to the Editor:
Overhauling the Pension-
Measuring Method to Reflect
Future Pay Raises

Return to Email Version

LINKS

Pension Section
Council

20 / 20 Web site



Contact the Editor



Calendar of Events

EVENTS

Halmstad Prize Call for Papers

WOMEN AND RETIREMENT: GREATER CHALLENGES
AND MORE INDIVIDUAL RESPONSIBILITY*Anna Rappaport, FSA*

Planning for retirement in North America has become much more challenging as the defined benefit system has declined. We must take more responsibility for ourselves. As we plan, many societal forces affect us. Both men and women are disadvantaged because Americans in particular are not very good savers.

While generally pension plans and Social Security (CPP/QPP/OAS in Canada) use the same formulas for men and women, often the results are different. Women alone are much more likely to be poor or near poor, and women have lower pensions on average. The differences in the economic status of older men and older women come from a number of different factors, including:

- Women's longer life spans;
- The fact that women are more likely to be alone in old age;
- Family decisions about the allocation and use of retirement assets;
- Differences in work histories and earnings;
- Failure to organize a comprehensive system to provide and finance long-term care;
- The fact that women are much more likely than men to need long-term care in an institutional setting;
- The failure of many families to secure adequate life insurance on the main breadwinner, if there is a main breadwinner;
- A Social Security system in the United States that works very well for a single-earner family with a dependent spouse, but much less well for various combinations of dual-earner families;
- The same women who have to work hard as single parents to support children alone are often striving hard to make it in retirement since they had a very difficult time saving.

This year, the 2008 Halmstad Prize will be awarded to the best actuarial science paper published in 2006. The selection committee makes its determination taking into account the originality and thoroughness of the ideas expressed in the paper, the readability of the paper, and the timeliness and relevance of the research.

Nominations for papers on pension-related topics are being sought. Please send a brief email that includes the name of the paper, the journal (with volume number) in which it was published, and a few sentences explaining why the paper should be considered to [kelley.mckeating@sympatico.ca](mailto:kelly.mckeating@sympatico.ca) before June 15, 2008.

Nominations for the 2009 prize (for the best paper published in 2007) are also welcome at this time.

For more information on the Halmstad Prize, click [here](#).

Note that the situation for married couples is totally different from that of single persons. A key challenge for the married woman is to remember that she is very likely to be single some day. Planning needs to work for the couple, and for each person when they're no longer a couple.

While there are significant differences in life circumstances between men and women, Society of Actuaries' research shows only very modest differences in risk perceptions with women being more concerned about some risks. A special report on the results of the 2007 Retirement Risk Survey and women will be issued later this year. A report on women and the 2005 survey results is currently available. The full report of the 2007 survey and the 2005 report on women are available on the [SOA Web site](#).

The 2007 research includes two new sets of material that are of particular interest as we think about women. There is a question in the survey which asks whether you will be worse off after the death of your spouse and whether your spouse will be worse off after your death. The results indicate that pre-retirees and retirees have similar expectations for their own financial well-being after their spouse's death or the financial well-being of their spouse after their own death. Two in 10 retirees (22 percent) and pre-retirees (21 percent) feel they will be financially worse off if their spouse were to die first. Only about one in 10 retirees (11 percent) and pre-retirees (8 percent) believe that their spouse will be worse off if they were to die first. Around 60 percent of both groups feel that they will be financially about the same. Several members of the project oversight committee, including me, feel that this is very optimistic and reflects a gap in knowledge. Results, by sex, for this portion of the survey will be included in the upcoming report on women.

The second new area in the 2007 survey focuses on phases of retirement, and looks at change during retirement. A special report on this topic will also be coming out later this year.

The key learnings from the risk surveys are that there are significant gaps in knowledge among Americans, and misperceptions about finances in retirement. This general finding is reinforced by the Employee Benefit Research Institute's annual Retirement Confidence Survey. While this work is from the United States, there is also evidence of similar gaps in other countries. The consequences of these gaps are more severe for women because they live longer. For example, if a couple uses its resources too rapidly due to a lack of knowledge, it is the survivor (after the first death) who is most likely to have a problem. If inflation risk is not considered properly, it is the person who lives the longest who is likely to suffer the consequences. The Committee on Post-Retirement Needs and Risks has issued two reports focusing on an overview of where the knowledge gaps are. These also can be found [here](#).

Is there something new about this topic?

The fundamental issues are unchanged, but they are more important today because of the large number of baby-boomers reaching retirement age, as well as the decline in defined

benefit plans. And, rising health care costs are compounding the challenges. With the increase in personal responsibility, more actuaries are focusing on how individuals can manage on their own.

Although the basic issues are certainly not new, the need to do something about them is greater than ever.

How can actuaries address these issues?

Actuaries are accustomed to thinking “like actuaries.” However, there are other, more effective, ways by which one can attack these issues. Diane Savage, CFP, CFC, provides an overview of the issues surrounding women and financial planning in *Rumpelstiltskin and Financial Planning*.¹

She takes a different twist, focusing on what should be done to solve the problems. She says:

Women need to become assertive financial decision-makers regardless of how little or how much money they earn, their marital status, their work patterns, their social status, or their net worth. It is important that women do something for their own retirement with whatever resources they have available to them. Is it better to arrive at retirement with regrets and no nest egg or to have some regrets and a little nest egg? Arriving at the life stage of retirement may be one of those times when something is better than nothing.

Savage also provides advice to planners about how to work with and approach women clients. She asks planners to:

- Help clients take responsibility and identify beliefs about personal financial responsibility;
- Work with clients to develop new financial behaviors;
- Integrate them into retirement planning;
- Use a coaching style;
- Find opportunities to work with groups of women.

What decisions do women need to make?

Success in retirement depends on a combination of financial resources and support, dealing with health issues, and having a “life portfolio” or staying engaged in meaningful activities. Here are some of the questions that individuals and their advisors need to ask as they prepare for retirement:

- What financial instruments, retirement benefits, and health care benefits are of special importance to couples in their later lives? To widows? To divorced women?
- What non-financial issues should be considered when planning for later life?
- To what kinds of later life benefits (e.g., retirement, health care) may a woman be entitled as a result of her (or her partner's) employment?
- What factors influence if, when, and how a woman should retire?
- What is the best age (62? 65? Later?) for a woman to commence social security retirement benefits?
- How might a woman's continued employment affect later life planning?

- How do health care issues affect later life planning?

When should women focus on retirement planning?

Retirement planning is an important part of lifetime financial planning. Unfortunately, many people do not start early enough. The best time to start saving is when you have your first real job, and the best idea is to stick with it. Once you've saved a little money, the next step is to learn to invest wisely. In your 30s and 40s, it makes sense to track your savings, invest well, and determine whether you're on track to have a reasonable amount of money when you become ready to retire or phase down. In your late 40s or 50s, it makes sense to do more serious retirement planning, focusing on risk management and how you will make retirement work. The Women at Risk materials discussed later in this article are aimed at this "near retirement" age group, as is Taking the Mystery Out of Retirement Planning, a publication of the U.S. Department of Labor prepared with help from the [Actuarial Foundation](#).

There are three key areas where actuaries can add value:

1. Helping people understand when to retire and when to claim Social Security benefits. While most people claim benefits early, there can be value in claiming them later.² When Ron Gebhardtbauer was Pension Fellow of the American Academy of Actuaries, he worked with USA Today to provide some tools to help people see the chances of living long and the increased value if Social Security is claimed later by those who live longer. The USA Today calculator indicates that, for a couple both aged 62, the chance that at least one of them will live to age 95 is 29 percent. It also shows, for a predefined example, how much benefit is lost by those who claim benefits early and live long. In addition to Social Security claiming, there are a number of other issues related to the economic pros and cons of retiring early and late. There is a paper on this topic in the Women at Risk material described below. Actuaries need to focus on how to help people understand and model the financial trade-offs between retiring at different times. For each individual, the right answer is a balance of life and financial issues. Many people want to realize their dreams while they are still energetic enough to enjoy the activities involved.
2. Considering whether, when, and how much to annuitize. A joint publication of the Actuarial Foundation and WISER, called Making Your Money Last a Lifetime, focuses on the questions that people should ask and the pros and cons of annuitization. Many people have asked me "How much should be annuitized?" or "Is there a guideline?" There is no professional advice currently available on which there is consensus. My view is that it is desirable to have a guaranteed life income (or an income stream that will not disappear) equal to one's basic expenses at one's "minimum living standard." I would define this minimum living standard not as living in the house we currently live in, but rather

in the least expensive house in which we would be comfortable. Social Security gets us part of the way there but, for most of us, not the whole way. However, note that about 40 percent of older women living alone have virtually nothing but Social Security, and must manage on what Social Security provides. If we have DB income, Social Security and DB income together may be sufficient. But for those who do not have DB pension income in addition to Social Security, there are serious questions. The Committee on Post-Retirement Needs and Risks has been grappling with this question, and whether there is a pathway to an answer. Papers included in the Needs and Spending in Retirement: Unraveling the Mystery monograph explore the range of needs in retirement considering those that are essential, discretionary, or unpredictable, as well as changing consumption patterns throughout retirement.³ We continue to look for ways to help advance our knowledge on this topic.

3. Helping people manage risk during retirement, including consideration of a range of risk management products. Individual risk management involves very different concepts than risk management for a group. Actuaries serving as advisors to human resource managers can help them determine their role and how to meet the needs of employees and retirees. Actuaries serving as advisors to financial service companies can help them develop and maintain products and services. Actuaries advising individuals or working in an educational mode can help develop information for individuals.

What are some of the most important knowledge and planning gaps?

Some of the key knowledge and planning gaps include:

- Thinking short term. Many people plan for five years or less when they might live another 30 years or more.
- Failure to focus on widowhood, or what will happen when a couple is no longer a couple.
- Overestimating the value of pensions and personal savings, and underestimating the importance of Social Security.
- Not focusing on the variability of life spans.
- Not planning for shocks such as long term illness and the need for long-term care.

"Spending and Investing in Retirement: Is there a Strategy?" outlines how focus groups organized by the SOA in conjunction with LIMRA reinforced the findings of earlier risk surveys and demonstrated that much of people's planning is short-term. This report, which includes actual quotes from retirees in the focus groups and audio recordings can be found [here](#).

What should actuaries do and how can we help?

Each of us can work to help build awareness of these issues with our clients, employers and the publics that we meet. We can become involved in our communities. Here is a discussion of some materials that may help us to help and an example.

In September 2007, the Joint Task Force on Issues Affecting Women as They Age of the Chicago Bar Association and the Women's Bar Association of Illinois organized an event to help women plan entitled Women at Risk: Timing, Financing and Coping with Retirement. The program was designed to inform women and the professionals who advise and counsel women, about issues relevant to middle and later life planning, particularly as to those issues affecting the decision to retire and the timing of that decision. Through a series of interactive panels, the participants analyzed three hypothetical case studies and discussed the ramifications of various responses to the circumstances faced by each of the case study subjects. The participants were provided with information about resources available to women facing particular risks as they approach retirement. Three actuaries, Julie Durkin, Carol Bogosian, and I, were on the program.

The Actuarial Foundation was a sponsor of the event, and the materials produced can be found on the Actuarial Foundation [Web site](#). The actuaries involved helped connect the organizers to the Actuarial Foundation. The resulting book of materials is transportable and could be used to help educate women or organize seminars elsewhere.

Closing Comments

Many women, particularly those who are alone, spend part of their retirement years poor or near poor. For many of them, their circumstances are much more difficult than earlier in life. As we talk about the new retirement and think about people working longer, we often ignore the fact that few will be able to and would want to work past age 75. As we think about retirement plans and retirement planning, remember that women are the majority among the very old, and that we need to focus on how to help them plan better for these years.

Notes

¹Published in the Journal of Financial Planning in March 2008. http://www.fpanet.org/journal/articles/2008_Issues/jfp0308-art3.cfm

²http://www.usatoday.com/money/perfi/retirement/2008-01-13-turning-62-cover_N.htm

³<http://www.soa.org/news-and-publications/publications/other-publications/monographs/pub-retirement-systems-monographs.aspx>

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