The current financial environment poses challenges for employees seeking a secure retirement. To assist employers wishing to help their employees with these issues, this article provides insights into the mindset of workers and retirees gained through recent survey results. It describes top retirement concerns based on the survey and recommended strategies for employers. Reviewing the top concerns, it is apparent that inflation can be viewed as a common denominator among them.

Retirement Risk: How Employers Can Help

by Anna Rappaport and Steven Siegel

A confluence of events, including a struggling economy and the first wave of baby boomers reaching their 60s, has recently turned a spotlight on issues in retirement. The very nature of retirement may no longer be similar to what previous generations had grown accustomed. With rising costs on the minds of many and the gas pump representing a particularly glaring reminder, more and more employees will likely turn to their companies for help in sorting through financial questions that impact their daily lives and future retirement security.

Undoubtedly, those nearing retirement will be leading the way. How are employers to respond to these challenges in this growing age of individual responsibility that may leave an increasing number of their workers unprepared and unequipped?

An important first step in addressing this question for employers is to understand the mindset of workers and those already retired. To gain insight into their thinking, recently published research from the Society of Actuaries (SOA) explored how individuals understand and perceive retirement risk.

This article presents highlights from the findings of that research, *The 2007 Risks and Process of Retirement Survey Report,* as well as other related retirement research efforts. With these findings framing the questions foremost on the minds of workers, this article lays out a series of suggestions that employers may wish to consider to help prepare their employees for risks in retirement.

The Top Retirement Risk Concerns

The 2007 survey analyzed leading retirement risks for men and women ages 45 to 80 who are either retired or still in the workforce. The survey was conducted via phone interviews with 801 adults; 400 were retirees and 401 were workers nearing retirement.

Respondents identified a number of risks relating to retirement. For each risk, respondents were asked to rate their level of concern, on a scale varying from "very concerned" to "not at all concerned." With the downturn in the general state of the economy driving inflationary fears and the prominence of health care access and affordability as a domestic policy issue, the survey findings confirm that these weigh on the minds of many.

As illustrated in the table on page 36, the top risk concerns for retirees and those nearing retirement are inflation; the affordability of adequate health care services and long-term care; and maintaining a reasonable standard of living.

Reviewing these concerns, it is apparent that inflation can be viewed as a common denominator among all of them. In other words, general inflation, in part, drives the increases in the costs of health care and long-term care and also impacts the ability to maintain a desired standard of living.

The field work for the research was completed before the most recent dramatic increases in food and energy costs. Consequently, if the survey were conducted in the summer of 2008, it seems quite likely that the percentages shown in the table would be significantly higher.

Focusing on health care, an interesting finding from the survey concerns the extent to which respondents view the benefits of maintaining a healthy lifestyle. When respondents were asked which actions they would take to financially protect themselves from health care expenses, the most frequently cited was maintaining healthy lifestyle habits—with an extremely high percentage of both retirees (91%) and pre-retirees (94%) choosing it. While maintaining healthy lifestyle habits is an admirable goal, these high percentages may be more indicative of wishful thinking rather than tangible action in light of other research reporting increases in obesity. Furthermore, because a healthy lifestyle can only go so far in avoiding health care costs, it is clearly not a substitute for suitable health care coverage.

> ***. . . general inflation, in part, drives the increases in the costs of health care and long-term care and also impacts the ability to maintain a desired standard of living.***

An interesting aspect of the top concern percentages is their relativities for the affordability of health care versus long-term care. While the percentages are nearly equal for retirees, pre-retirees express greater concern about the affordability of expenses for acute health care needs.

One reason for this differential may be related to retirees and pre-retiree's first-hand knowledge of how long-term care and health care are financed in retirement. While Medicaid covers some long-term costs for those with virtually no assets and little income, middle-income Americans without insurance must pay for long-term care costs out of pocket.

The survey did not directly ask retirees and pre-retirees as to their understanding of the difference in the financial consequences of different types of health risk. However, there is anecdotal evidence that many workers believe that they will be covered for the costs of long-term care, when, in fact, they will not. This mistaken belief may explain why pre-retirees were less concerned about the affordability of these costs and therefore further education to increase awareness of the funding of long-term care costs could be beneficial.

Risk Concerns Differ by Gender

When the responses of retirees are analyzed by gender, a clear pattern emerges with more women expressing concern than men for all the retirement risks. Retirement risks impact men and women in different ways, primarily because women, on average, live longer and spend less time in gainful employment.

In terms of longevity differences, at the age of 65, life expectancy is 17 years for men and 20 years for women. For employment histories, the differences are more pronounced with women earning, on average, 77% of what men earn, and spending 12 fewer years in the workplace, largely due to caregiving responsibilities. As a result, this lesser time in the workplace causes women to accumulate lower pension benefits. Furthermore, women are also more likely to be alone in old age, since they typically live longer.

By the age of 85, 86% of women are alone compared to 45% of men. Many women will spend 15 or more years as widows and about four in ten older women living alone have virtually no income beyond Social Security. Consequently, it is clear that inflation and the other risks driven by inflation may be felt to a greater extent by women as the risks compound in older age and diminish an already lower asset base.

The Phases of Retirement—

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Table

Top Retirement Risk Concerns

Top Retirement Risk Concerns*	Retirees	Pre-Retirees
Inflation	57%	63%
Affording long-term care	52%	63%
Affording adequate health care	51%	69%
Maintaining a reasonable standard of living	48%	55%

*Percentages that express significant concern

Source: The 2007 Risks and Process of Retirement Survey Report.

A Dimension of Retirement Planning

As the potential time spent in retirement continues to grow, retirees may experience a number of distinct lifestyle changes as they age. These changes may be marked by reduced physical and mental capabilities, greater reliance on family and friends and the need to relocate into special housing or care facilities. As a result, retirement can represent a time of numerous transitions.

To explore the expectations and understanding of retirees and pre-retirees on the nature of this change, the survey defined three broad phases of retirement and queried respondents on them. In terms of the definitions, the following were used for purposes of the survey:

- **Phase One**—The needs and abilities of retirees are about the same as before they retired.
- **Phase Two**—Retirees are less able to function than prior to retirement and their needs are somewhat different as a result.
- **Phase Three**—Retirees are much less able to function than previously and their needs are very different as a result.

At a high level, the results showed that while 72% of retirees and 84% of pre-retirees expect to have a period when they have diminished capabilities, many do not plan beyond the first phase. The key takeaway from these results is the benefit of generating awareness that retirement may not simply be a continuation of the prior time spent in employment in terms of needs and abilities. To the extent that this awareness can be transformed into planning, the more prepared a retiree will likely be.

The Financial Implications of Losing a Spouse

Another area explored by the survey was the implications of losing a spouse in retirement. Respondents were asked to consider a situation in which their spouse/partner passes away before them in retirement. Would they be financially better off, worse off or about the same?

Surprisingly, only two in ten of both pre-retirees (21%) and retirees (22%) felt they would be financially worse off if their spouse were to die first. Because losing a spouse for many is, indeed, a time of reduced means, the survey designers had expected to see significantly larger percentages. Statistics supporting this expectation include that the official government poverty threshold maintains a single person requires nearly 80% of the income needed by a married couple.

Against that measure, Social Security benefits paid to a surviving spouse vary between a level of only 50% to 67% of what the couple received. This implies those who have lost a spouse and are subsisting primarily on Social Security are, almost by definition, financially worse off. Furthermore, about four out of ten older women living alone have no significant income other than Social Security. Based on these survey results, it is evident that raising awareness on the risks associated with losing a spouse is another area that could lead to better planning.

Outliving Assets—Out of Sight, Out of Mind?

Outliving assets is another area where respondents expressed significant concern. Yet, the extent to which such concern is ultimately transformed into tangible action for planning purposes is unclear. Another SOA study conducted jointly with LIMRA International illustrates why such action may be doubtful. The 2006 study, *Spending and Investing in Retirement: Is There a Strategy?* was conducted through a series of focus groups held with retirees who were about two to five years into retirement and had significant 401(k) balances when they retired. Based on the conversations that ensued during the sessions, it was apparent that many of the participants adopted a short-term, almost fatalistic, attitude as they planned for retirement.

Rather than following a methodical and contemplative analysis of retirement issues, many just relied on instincts. Below is a list of representative quotes from some of the participants who employed the type of thinking described above:

- "I never sat down and thought, I am 59, and in 30 years I'll be 89. Have I allocated enough for 30 years? I never did that. Theoretically, I should have. But it doesn't seem to make any difference." —**Male**
- "I thought you were supposed to retire when you are about 65 and thought I would try it." **—Male**
- "I worked it out and I knew that I could afford it. (How did you work it out?) Well, I just got all my figures together and put it down on paper and it looked like I could do it. (You added it up?) I knew I could do it. As long as I didn't have a catastrophic illness, aside from that, I could do it, whatever." **—Female**
- "We take it day by day . . . I can't worry about what is going to happen tomorrow." —**Male**

The report provides additional quotations and a great deal more insight into how these retirees made decisions after retirement.

What Employers and Their Advisors Can Do to Address These Concerns

The following list contains suggestions for employers for a number of the major risk concerns previously discussed.

Inflation Risk

- Make automatic increases in 401(k) deferrals a default option at the time of salary increases.
- Consider inflation-adjusted payout options (including lifetime annuities) in retirement savings plans.

Affordability of Long-Term Care Risk

- Consider offering long-term care insurance to employees, their spouses and their parents.
- Offer educational information about long-term care risk and the most effective ways of funding this risk even if a company does not offer long-term care insurance to its employees. Help employees focus on the questions they might ask as they think about whether to buy long-term care insurance.

Surviving Spouse Risk

- Promote the joint and survivor options of pension plans for married, retiring plan participants.
- If a company's defined contribution plans do not offer annuity options, consider adding them or provide a means to make an annuity purchase through a rollover IRA, including joint and survivor options.

Saving Too Little

- Make a retirement savings plan available, even if a company cannot afford to make matching contributions.
- Consider offering a defined benefit plan.
- Give employees under the age of 50 information about how much they should save at specific ages as a proportion of their income, so workers can know what is required to maintain their standard of living.
- Provide employees aged 50 and over with tools to help them calculate how much they must accumulate by target retirement dates to meet retirement income needs, how much they should save by the end of each year to be on track to reach accumulation targets by the desired age and how much sustainable income can be derived from specific accumulation levels at specific ages.
- Maximize the amount of 401(k) contributions the company matches, if possible.
- Consider introducing automatic enrollments and automatic step-ups in deferral each year.
- If possible, offer job flexibility to those who cannot afford to retire or who wish to continue with some work for other reasons, and offer benefit options that fit these workers' needs.

Outliving Assets

- Provide tools to educate employees about the variability of life spans and the chance of living to selected ages and how this will affect their retirement savings and income strategies.
- Give employees information about methods of using retirement assets to provide sustainable income and how much sustainable income can be derived from specific levels of accumulation.
- Provide retirement income management information to employees nearing retirement. If an employer does not wish to provide direct information, it could provide information about available resources.
- Include lifetime annuities as options available to retirees from 401(k) and other retirement savings plans and consider making the annuity option the default.
- Advise older employees about the most effective asset allocations in retirement.
- Offer employees a review of their accumulation and advice on the standard of living that can be maintained throughout retirement if they retire at their target date.

Tip Sheet for Individuals

In the current economic environment, individuals have become increasingly responsible for planning their own retirement. Employers have a range of views on how best to balance their desire to help their employees versus the need for individuals to be engaged and responsible for their retirement.

Regardless of an employer's benefits philosophy, the tip sheet below can be a worthwhile educational tool to pass along to individual employees. Although many of the issues have already been discussed in this article, these tips include explanations and messages geared specifically to employees.

Married women need to remember that, on average, women live longer than men and that most women outlive their husbands, often by 15 years or more.

1. **Employees are responsible for having adequate assets in retirement.** Even if covered by company pension benefits, employees probably need to save on their own because:
   - Company benefits may not be enough.
   - Employees could leave their job before the age of 65.
   - Benefit plans can be changed, and assets are the employee's responsibility.
2. **Married women need to remember that, on average, women live longer than men and that most women outlive their husbands, often by 15 years or more.** There is very often a decline in economic status in widowhood. Plan for widowhood. In addition, many marriages end in divorce, so retirement assets need to work for a single individual and a couple.
3. **Outliving assets is a very serious issue.** While average life expectan-

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cies are in the late 80s for women, some people live to over the age of 100, and life spans are increasing. Organize portfolios so that part of retirement assets are a life income that can't be outlived.

4. **Contribute the most possible to a 401(k) plan or other organization-sponsored savings plan.**
5. **Save early to maximize investment return.** Develop an investment strategy that considers the term of investments. Asset mix is the most important driver of investment performance. Diversification is important. Do not invest too much in any one stock or other investment.
6. **Keep score.** Keep track of how much is being saved. A plan is only as good as its implementation and follow-up.
7. **Things change after retirement.** Along with having dreams, retirees should also be aware of risks. Some of the things to be aware of include long life spans, inflation, frailty and decline in functional status, death of a spouse, other changes in family composition and unexpected medical costs. Insurance and annuities can protect against some of these risks.
8. **Decisions made long before retirement may have an effect on retirement security.** They include taking a job, leaving a job, getting married, getting divorced, etc.
9. **Keep job skills up to date; that is very important to security.** Good retirement benefits depend on having money to save and/or good earnings.
10. **Don't forget about medical and disability coverage and protection.** Disability protection is often overlooked. Medical coverage after retirement and before the age of 65 may be a big problem if you do.

Conclusion

There are significant gaps in knowledge and disconnects between what employees say they plan to do and what they actually do with regard to retirement planning. These gaps have the potential to create a range of problems that may lead, in a worst-case scenario, to extreme impoverishment—particularly for those who live longer. Likewise, employees who do not plan ahead may experience the unhappy situation of entering a retirement that they simply cannot afford—and employers, in turn, will no doubt feel the effects of this despair.

Employers can play an important role in helping employees sort through the issues and make informed decisions. Through offering programs, raising awareness of risks and arranging access to risk management products, employers not only assist their employees, but create a work environment that is likely to lead to improved employee retention and recruitment. Clearly, an employer must tailor any offerings in this area to the needs and resources of its business—obviously, one size will not fit all. But, an employer that makes the decision to do so should find it well worthwhile. **B&C**

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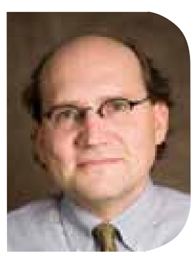

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