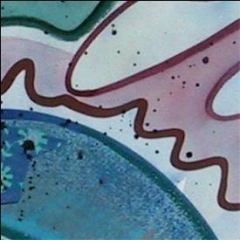


ANNA RAPPAPORT CONSULTING
STRATEGIES FOR A SECURE RETIREMENTSM



**Deeper Dive into Post-Retirement Risk:
Important Research about Retirement**

Actuarial Society of Greater New York
November 2011



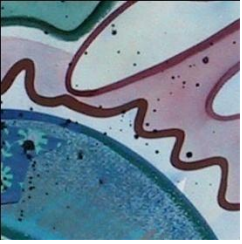
Our Goals Today

- Understand SOA Research
- Think about what it means to each of us
- Share ideas about how we might use results
- Discuss how you can get involved



Agenda

- Overview of research
- Context
- Research results by issue
 - Post Retirement Risk Concerns
 - How and When We Retire
 - Work as Part of Retirement
 - Importance of Housing
 - Planning for Retirement
 - Thinking about Spouses
 - Understanding Longevity
 - What Changes during Retirement



Overview of Research

Post-Retirement Needs and Risks

- SOA Committee provides ongoing research: 15+ year effort
- Foundation: Managing Post-Retirement Risks
- Major recurring project: Survey of Post Retirement Risks
- Underlying puzzle
 - People say they prefer life income
 - People choose lump sums when they can
- Underlying challenges
 - Financial and math literacy
 - Misperceptions
 - Short planning horizon



Overview of Research

Bi-annual Survey Focused on Post-Retirement Risk Perceptions

- Core repeated questions
 - Importance of various risks
- Issues of focus in each survey
 - Working in retirement – 2005 and 2011
 - Longevity – 2005 and 2011
 - Impact of economic conditions/decline – 2009 and 2011
 - Women – 2005 and 2009
 - Phases of retirement – 2007
 - Health and long-term care – 2007
- Reports bring in some related research



Overview of Research

Big picture perspective on results

- Lot of stability after six surveys; overall consistency with other work
- Since the surveys started in 2001, two major periods of stock market decline – results seemed affected for the next survey after the decline
- In 2011, retirees seem more concerned than in prior years
- Pre-retirees more concerned than retirees in all years
- Interest in buying financial products other than supplemental health insurance over age 65 and health insurance at all ages seems low
- Persistent gaps in understanding
- Significant similarity to Canadian results
- Economy has led to increased concerns, decline in economic well-being —have some uncertainty and likely disagreement about how long lasting and severe this effect will be
- LIMRA/INFRE/SOA study shows that some of the increased concern about security in 2009 has disappeared but that retirees say they have changed spending behavior and reduced debt



Overview of Research

Added areas of SOA research focus

- Investing assets in retirement
 - Focus groups
 - On-line surveys in 2008, 2009, 2011
- Segmenting the middle market: Parts I and II
- Monographs and paper calls
- Misperceptions papers
- Projects under development:
 - Middle market—working with planners
 - Running out of money



Context Background

- Personal responsibility for retirement security increasing
- Changing US Retirement System—more employer sponsored savings (DC) and fewer traditional pension plans (DB) and less retiree health; many DB plans frozen
- Economic turmoil*
- Definition of retirement changing
- As population ages, needs of the very old become more important to the nation

*See Appendix for some research results on reactions to economic turmoil



Context

Overview of Risks

**Longevity, outliving assets,
and changes in family
structure**

Longevity
Death of a spouse
Change in marital status
**Unforeseen needs of family
members**

Financial and economic

Interest rate
Stock market
Knowledge about investments

**Health care, long term care
and housing**

**Unexpected health care
needs and costs**
**Loss of ability to live
independently**
**Lack of available facilities or
caregivers**
Change in housing needs

Business and employment

Public policy



Context

What changes by age: Percentage of individuals by marital status, sex and age

	Age 65-74	Age 75-84	Age 85 +
MALES			
% Married	78%	74%	60%
% Widowed	8%	17%	34%
FEMALES			
% Married	57%	38%	15%
% Widowed	26%	52%	76%

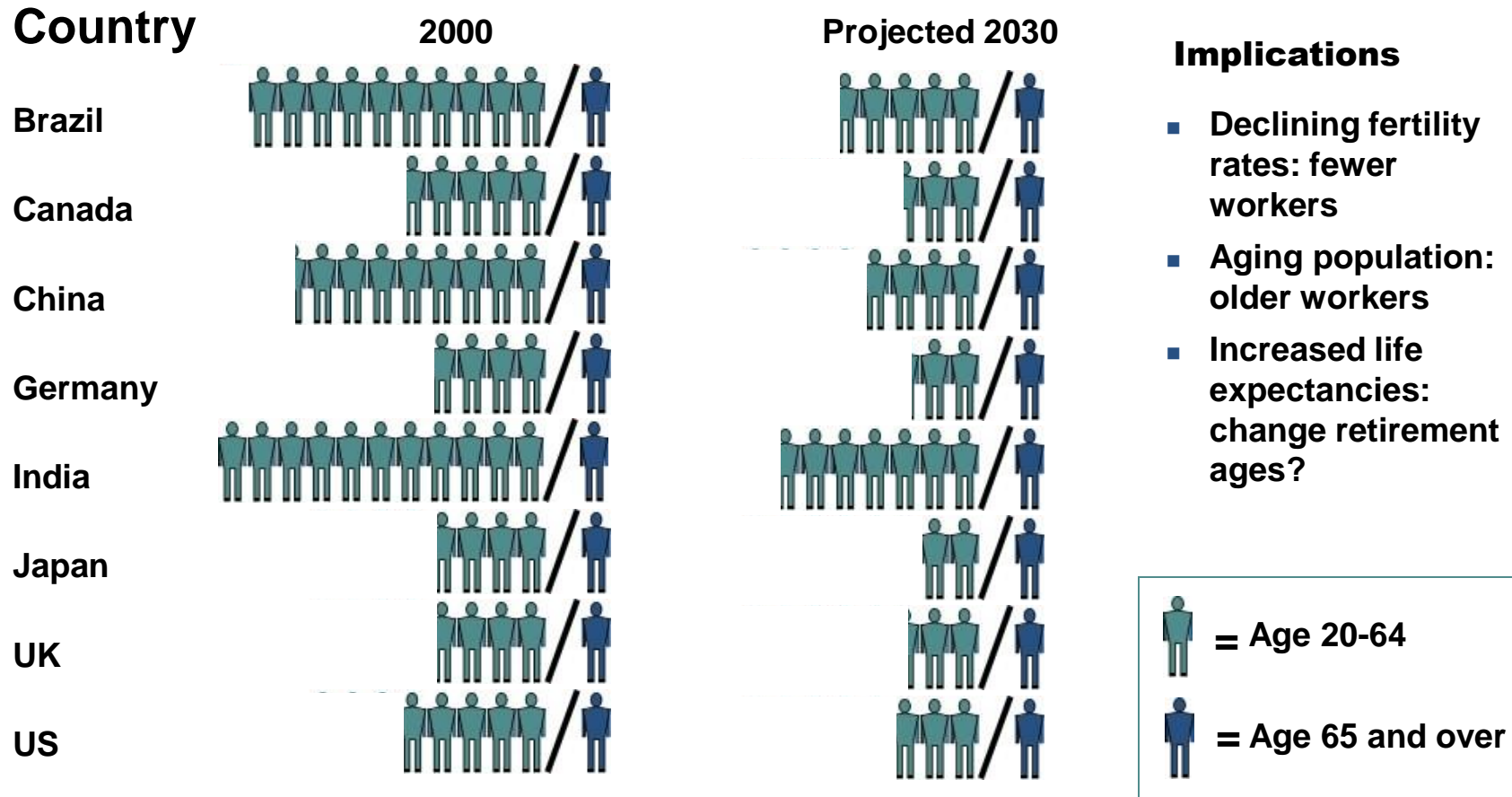
Source: Rappaport, Anna, Risk Management Issues for Individuals with Special Emphasis for Women, Exhibit VI, Society of Actuaries Living to 100 Monograph, 2011



Context

Changing Demographics = Global Issue

Changing ratio of age 20-64 adults to post-65 adults



Source: U.S. Census Bureau, 2000a

- ### Implications
- Declining fertility rates: fewer workers
 - Aging population: older workers
 - Increased life expectancies: change retirement ages?



Context

Women vs. Men

- In 2002, the median earnings of full-time full-year workers
 - Men \$38,884
 - Women \$29,680
- Median years worked of workers retiring in 2000
 - Men 44
 - Women 32
- Life expectancy at age 65 in 2002
 - Men 16.6 years
 - Women 19.6 years

Source: *Why Are So Many Older Women Poor?*, Center For Retirement Research, Boston College, April 2004.



Post Retirement Risk Concerns

Results: Risk Perceptions

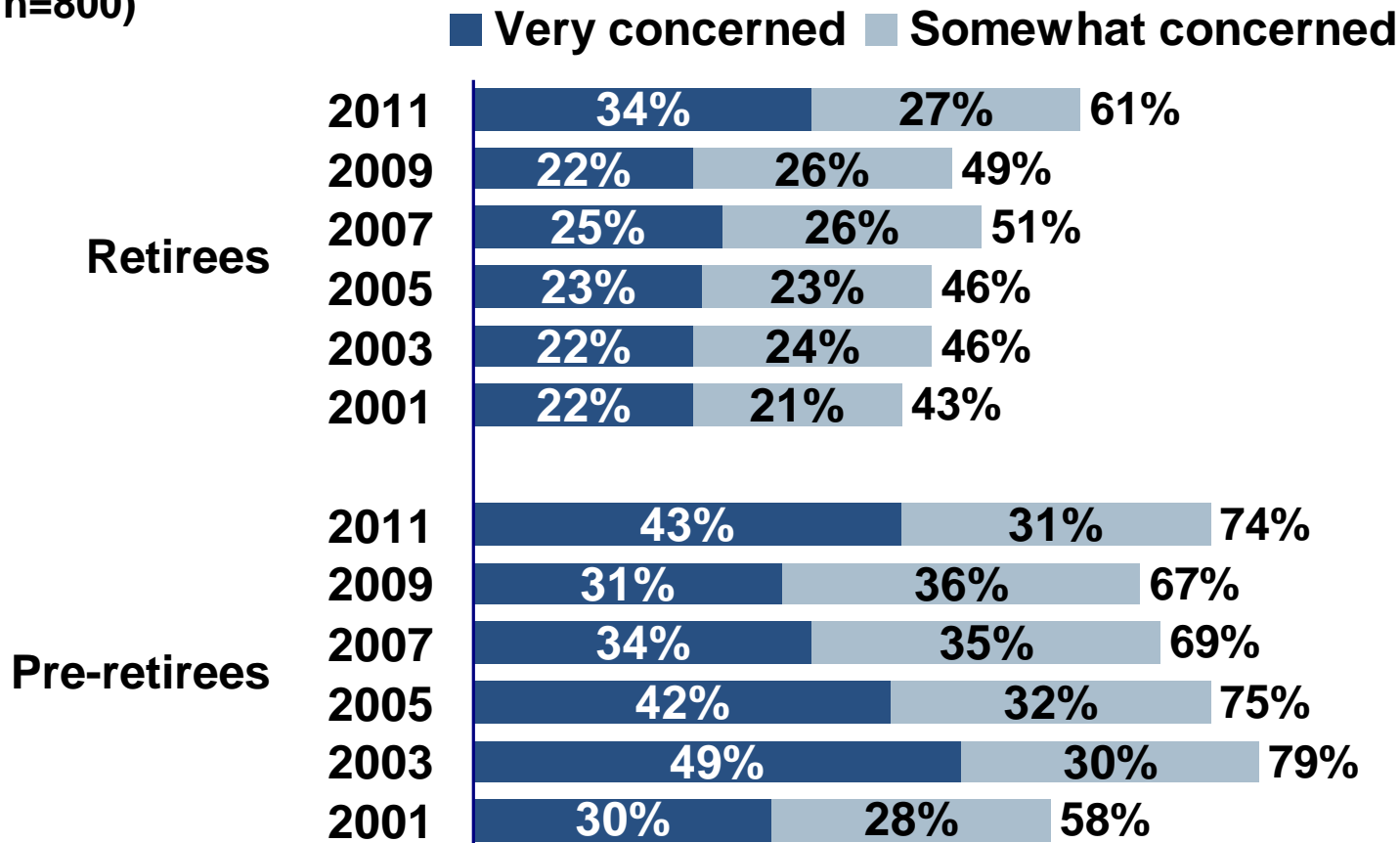
- Biggest areas of concern: health care, long-term care, inflation
- Retiree concerns about risk increased in 2011
- Pre-retirees more concerned about risk



Post Retirement Risk Concerns

Retiree concern about health risk increased in 2011

How concerned are you that you might not have enough money to pay for adequate health care (in retirement)? (Retirees, 2011 n=800; Pre-retirees, 2011 n=800)



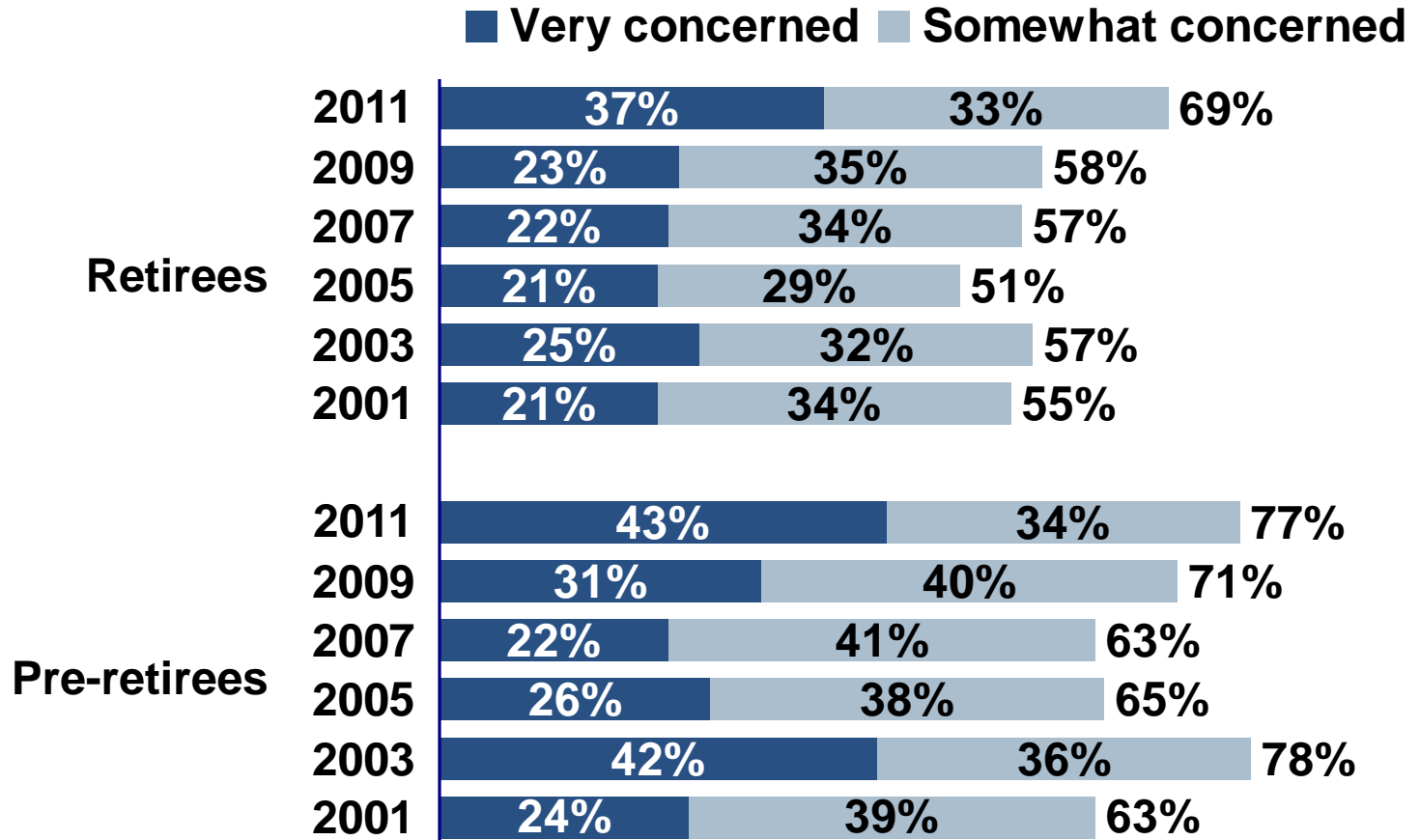
Source: Society of Actuaries, 2001-2011 Risks and Process of Retirement Surveys



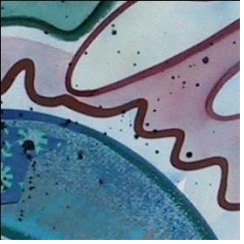
Post Retirement Risk Concerns

Retiree concern about inflation risk is up this year

How concerned are you that the value of your savings and investments might not keep up with inflation (in retirement)?



Source: Society of Actuaries, 2001-2011 Risks and Process of Retirement Surveys



Discussion

- What does this data mean to us?
- What should we tell clients?
- Do we need more information?



How and When We Retire

- Gap between retiree action/pre-retiree expectation
- Many retire involuntarily
- Many people are trying to work as part of retirement
 - Often different roles or schedules
 - Research looks at phased retirement



How and When We Retire

Pre-retirees expect to retire later than retirees

At what age did/do you expect to retire from your primary occupation?
(Retirees retired from primary occupation, 2011 n=765; Pre-retirees expecting to retire, 2011 n=498)

Age category	2009 Retirees (%)	2011 Retirees (%)	2009 Pre-retirees (%)	2011 Pre-retirees (%)
Under 55	28	31	1	1
55 to 61	33	30	24	21
62 to 64	20	21	16	16
65 to 67	12	12	35	38
68 or older	4	4	16	17
Don't know	2	2	8	7

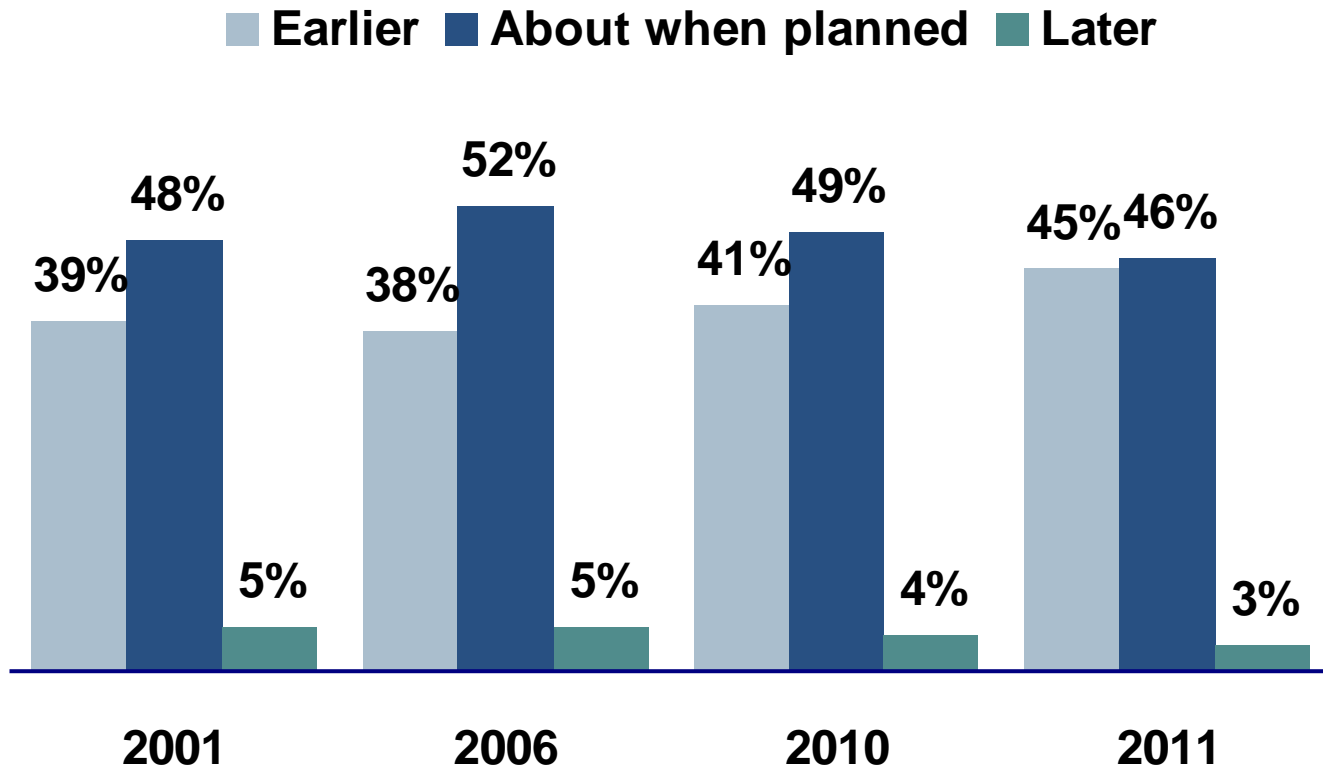
Source: Society of Actuaries, 2009-2011 Risks and Process of Retirement Survey



How and When We Retire

Many may be ignoring possibility of involuntary early retirement

Did you retire earlier than you planned, later than you planned, or about when you planned? (Retirees, 2011 n=252)



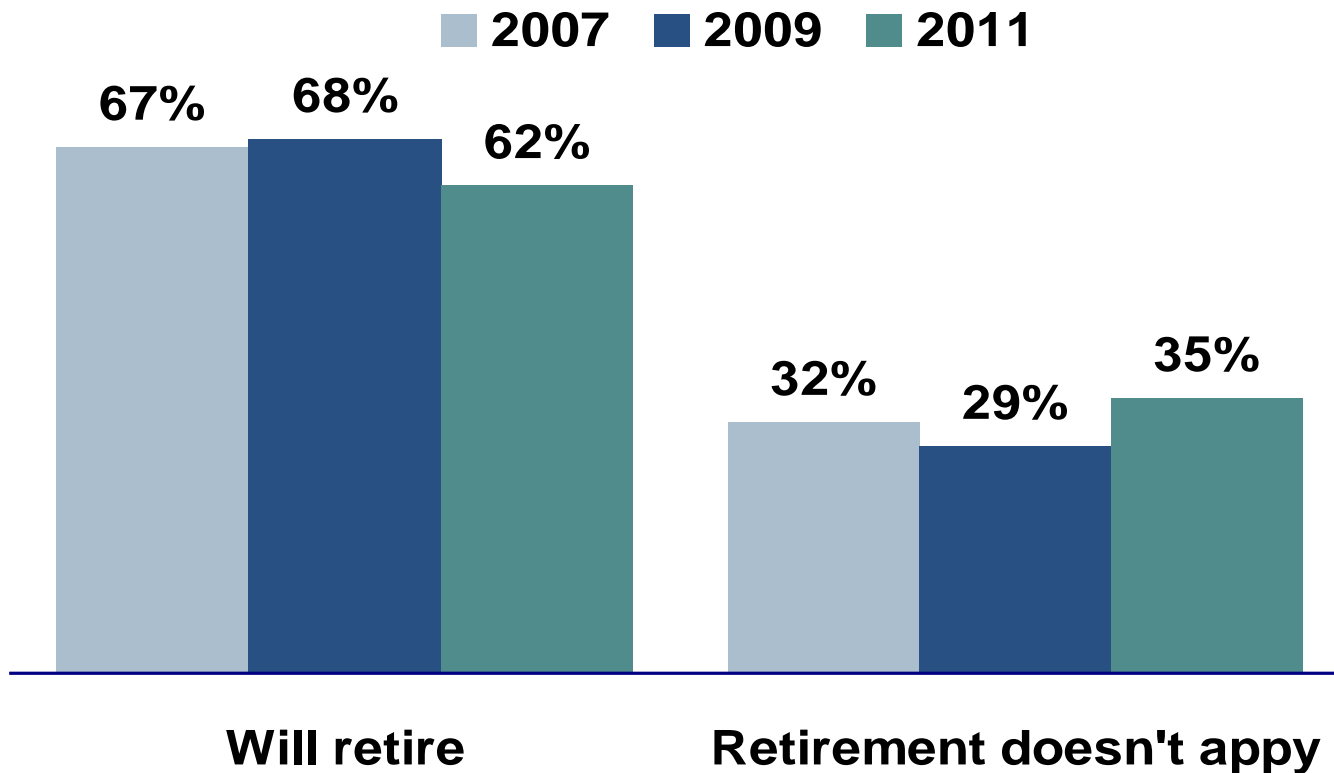
Source: EBRI/Greenwald, 2001-2011 Retirement Confidence Surveys

How and When We Retire

More than one in three pre-retirees feel retirement won't apply to them

Do you think there will come a time when you begin to think of yourself as retired or doesn't retirement really apply to your situation?

(Pre-retirees, 2011 n=800)

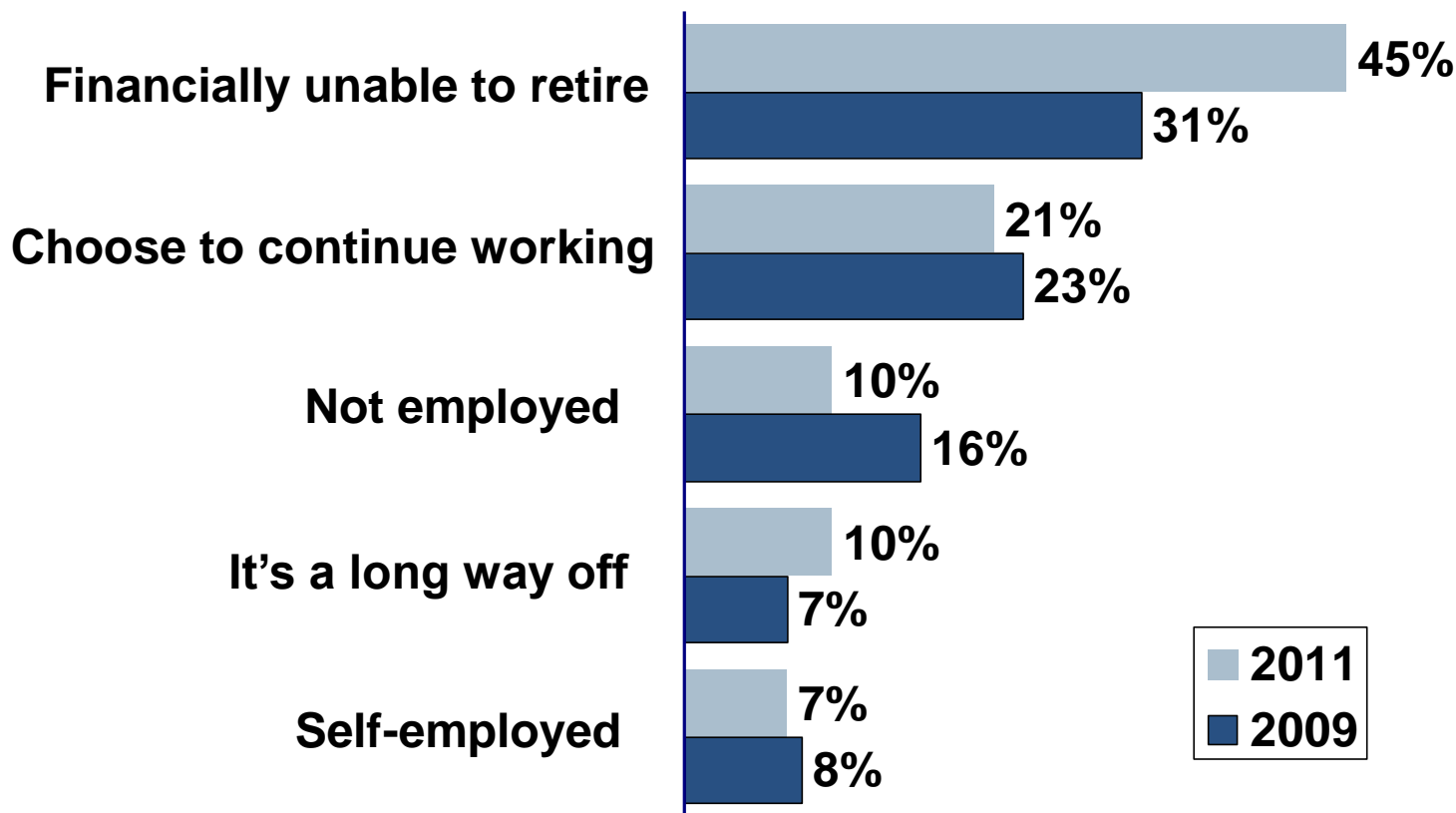


Source: Society of Actuaries, 2007-2011 Risks and Process of Retirement Surveys

How and When We Retire

Mostly this is due to finances or desire to continue working

Why do you say that? (Open-ended question)
(Pre-retirees, 2011 n=302)

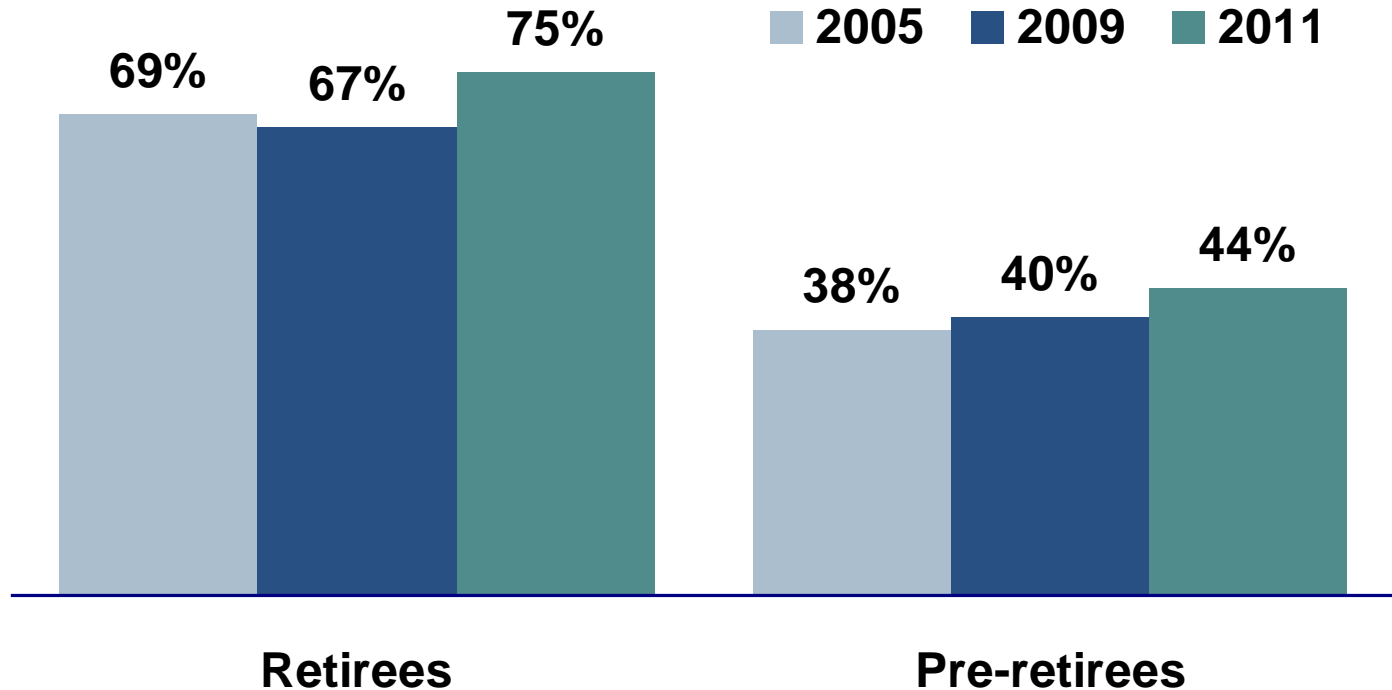


Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Work as Part of Retirement

Less than half of workers plan on stopping work “all at once”

Which statement comes closest to describing how you retired/plan to retire from your primary occupation? (Percent saying stopped/will stop work all at once) (Retirees retired from primary occupation, 2011 n=762; Pre-retirees expecting to retire, 2011 n=497)



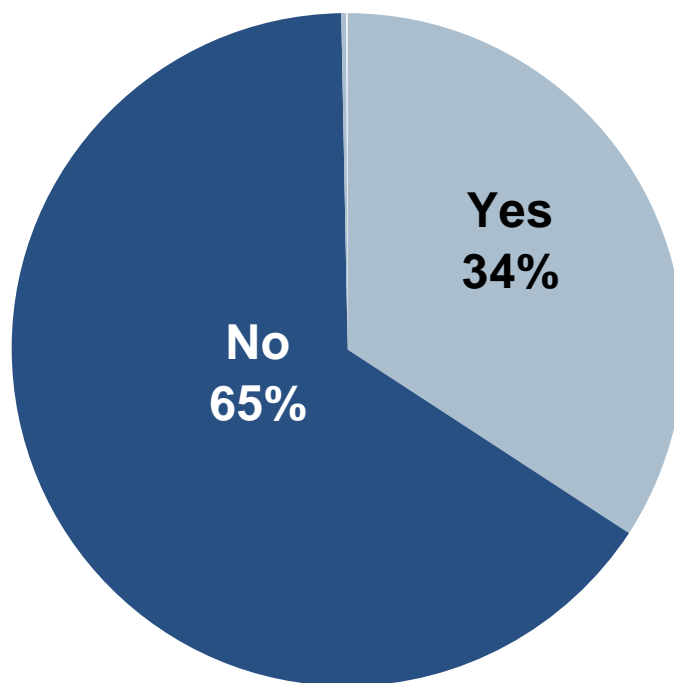
Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey



Work as Part of Retirement

One-third of retirees who stop all at once return to work

After you retired, did you ever return to paid employment?
(Retirees stopping work all at once, n=579)



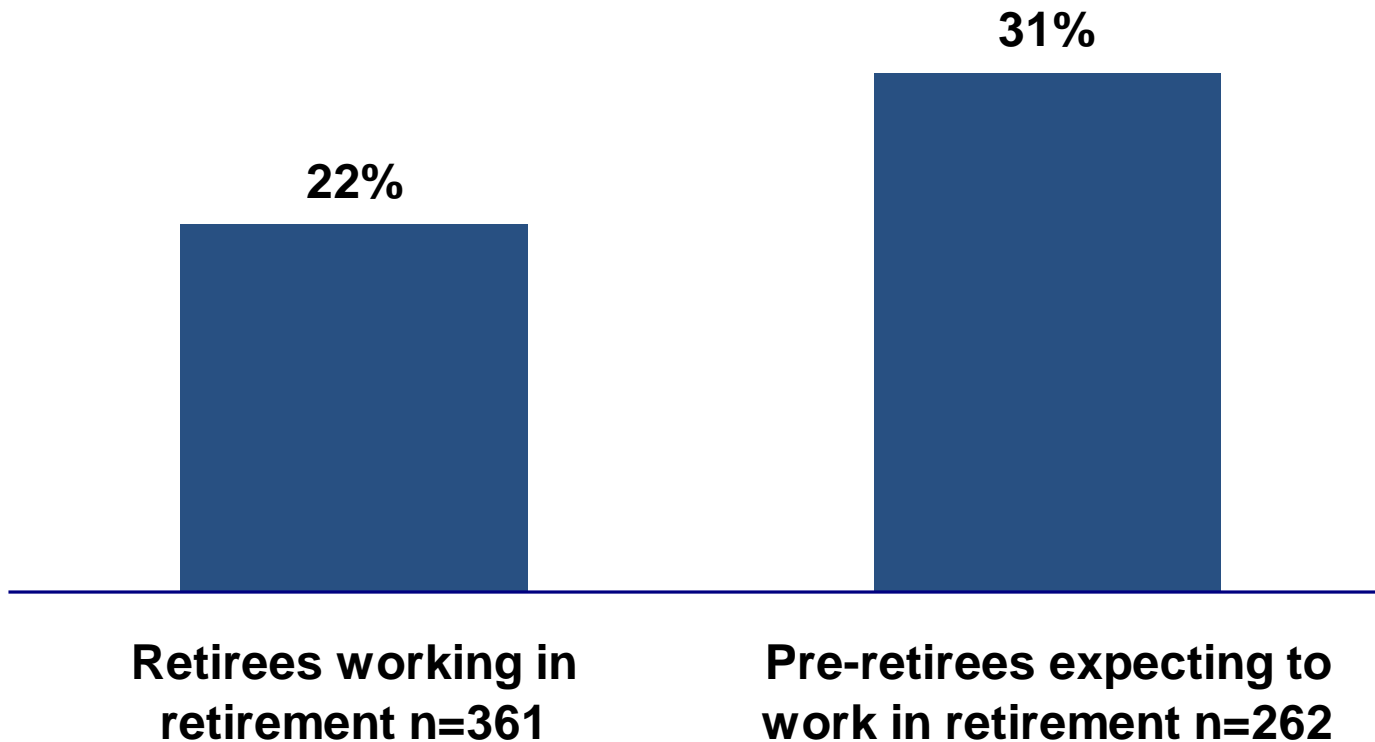
Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey



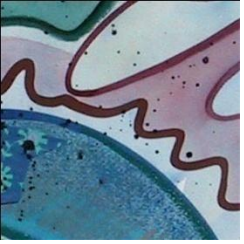
Work as Part of Retirement

3 in 10 pre-retirees expecting to work in retirement plan to start a small business

Did you/do you plan to start a small business or become self-employed when you retired/retire? (Percent saying yes)



Source: Society of Actuaries, 2009 Risks and Process of Retirement Survey



Discussion

- What does this data mean to us?
- What should we tell clients?
- Do we need more information?



Importance of Housing

Wealth of Middle Income Households Age 55 to 64

Analysis based on 2004 Survey of Consumer Finances

Household Type	Number of Households	Median Income	Est. Median Net Worth	Non-Financial Assets	Financial Assets	Non-Financial Assets %
Middle Mass Households (25% to 75% of households by net worth)						
Married	5.2 million	\$75,000	\$348,000	\$240,000	\$108,000	69%
Single Female	2.5 million	\$28,000	\$111,000	\$75,000	\$36,000	68%
Single Male	1.4 million	\$41,000	\$125,000	\$89,000	\$36,000	71%
Mass Affluent Households (75% to 85% of households by net worth)						
Married	1.0 million	\$132,000	\$1,300,000	\$884,000	\$416,000	68%
Single Female	.5 million	\$58,000	\$415,000	\$299,000	\$116,000	72%
Single Male	.3 million	\$79,000	\$465,000	\$349,000	\$116,000	75%

Note: Financial assets exclude the value of defined benefit pensions and Social Security.

Source: Society of Actuaries – Segmenting the Middle Market: Retirement Risks and Solutions, 2009.



Planning For Retirement

- Planning horizon is concern
- Many people do not understand longevity
 - Particularly variability
- People who live longest will have problems
- Gaps in understanding – death of spouse



Planning For Retirement

Half of retirees, fewer pre-retirees have planning horizon < 10 years

When you make important financial decisions, about how many years do you look into the future? (Retirees, 2011 n=800; Pre-retirees, 2011 n=800)

	2009 Retirees (%)	2011 Retirees (%)	2009 Pre-retirees (%)	2011 Pre-retirees (%)
Less than 1 year	10	7	1	3
1 to 4 years	20	15	12	7
5 to 9 years	19	26	24	22
10 to 19 years	16	23	37	37
20 years or more	7	11	13	19
Don't know	27	16	12	10

Source: Society of Actuaries, 2009-2011 Risks and Process of Retirement Surveys



Planning For Retirement

Insurance plays only a small role in preparing for increased need

What, if anything, have you done or will you do to prepare for your changing needs in retirement? (Among those expecting less active stages)

Top Mentions (multiple responses accepted)	Retirees (%) (n=330)	Pre-retirees (%) (n=353)
Save (more) money	16	37
Invest to make assets last	15	19
Buy long-term care insurance	11	8
Make home modifications	6	4
Cut back on spending	6	4
Stay healthy/improve health	4	4
Pay off debts	2	5
Nothing	28	15
Don't know	7	7

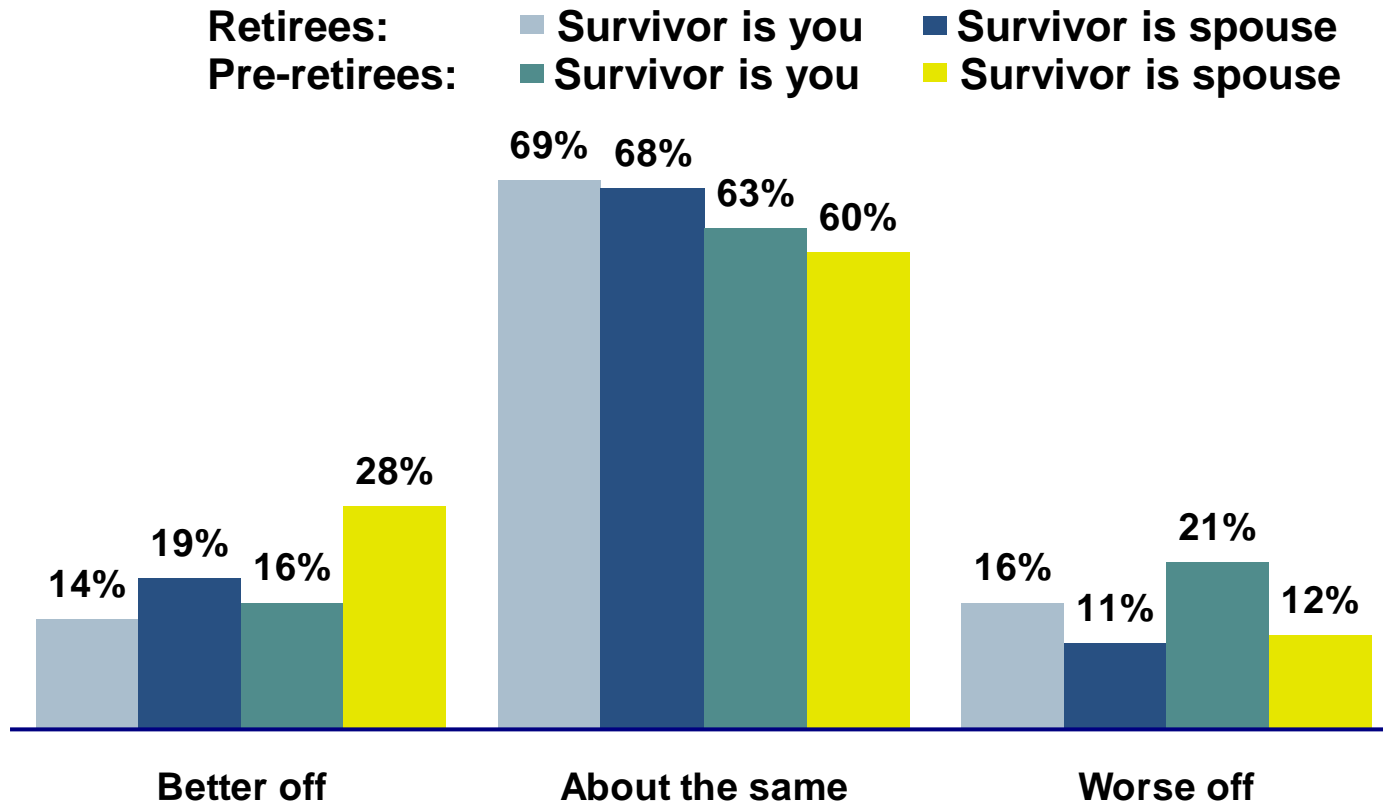
Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



Thinking about Spouses

Few believe they will suffer financially by spouse's death

If your spouse were to pass away before you/If you were to pass away before your spouse, do you think it would leave you/your spouse financially...?
(Among married Retirees, 2009 n=249); Pre-retirees, 2009 n=293)



Source: Society of Actuaries, 2009 Risks and Process of Retirement Survey

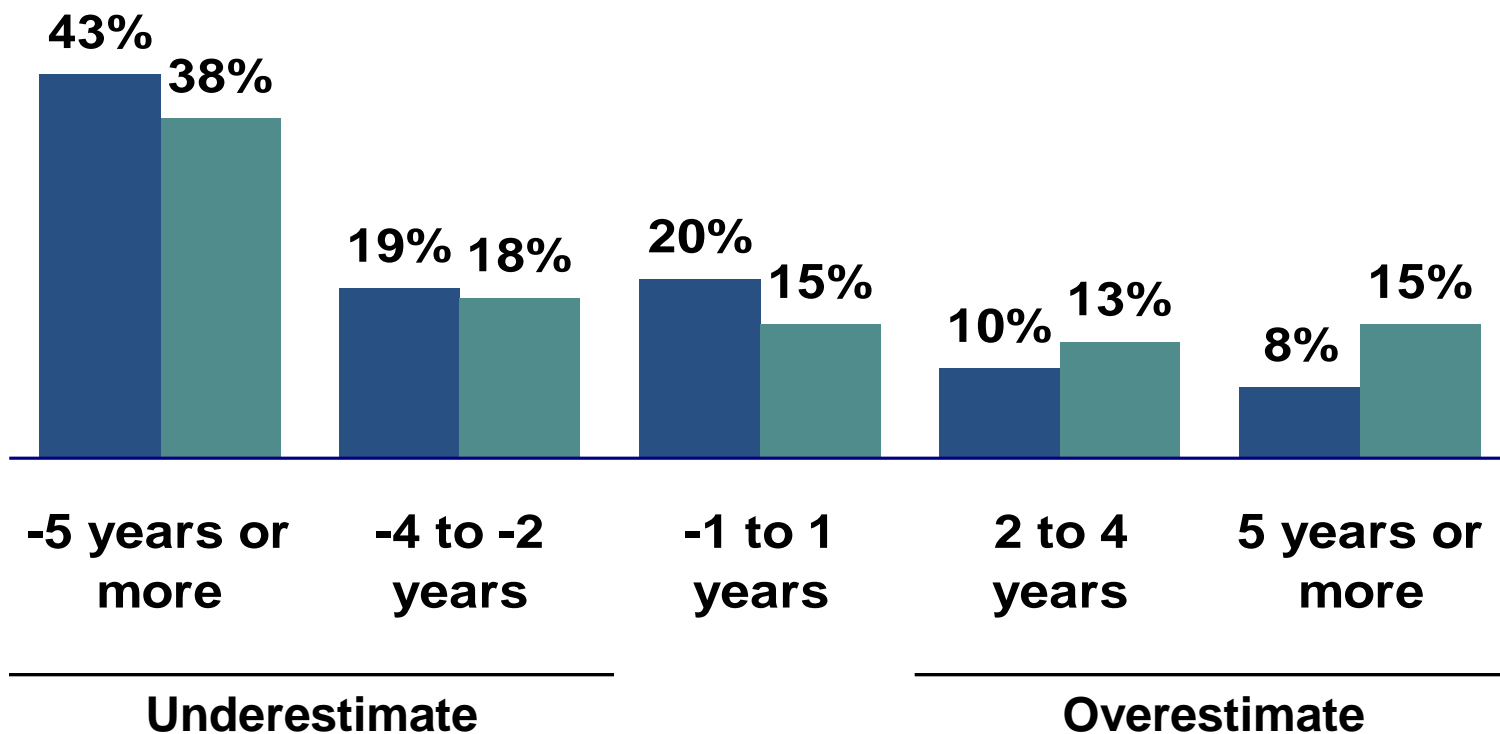
Important SOA Research about Retirement

Understanding Longevity

People tend to underestimate population life expectancy

Difference between respondent estimate of population life expectancy and actual population life expectancy (among those providing an estimate)

■ Retirees (n=723) ■ Pre-retirees (n=757)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Important SOA Research about Retirement

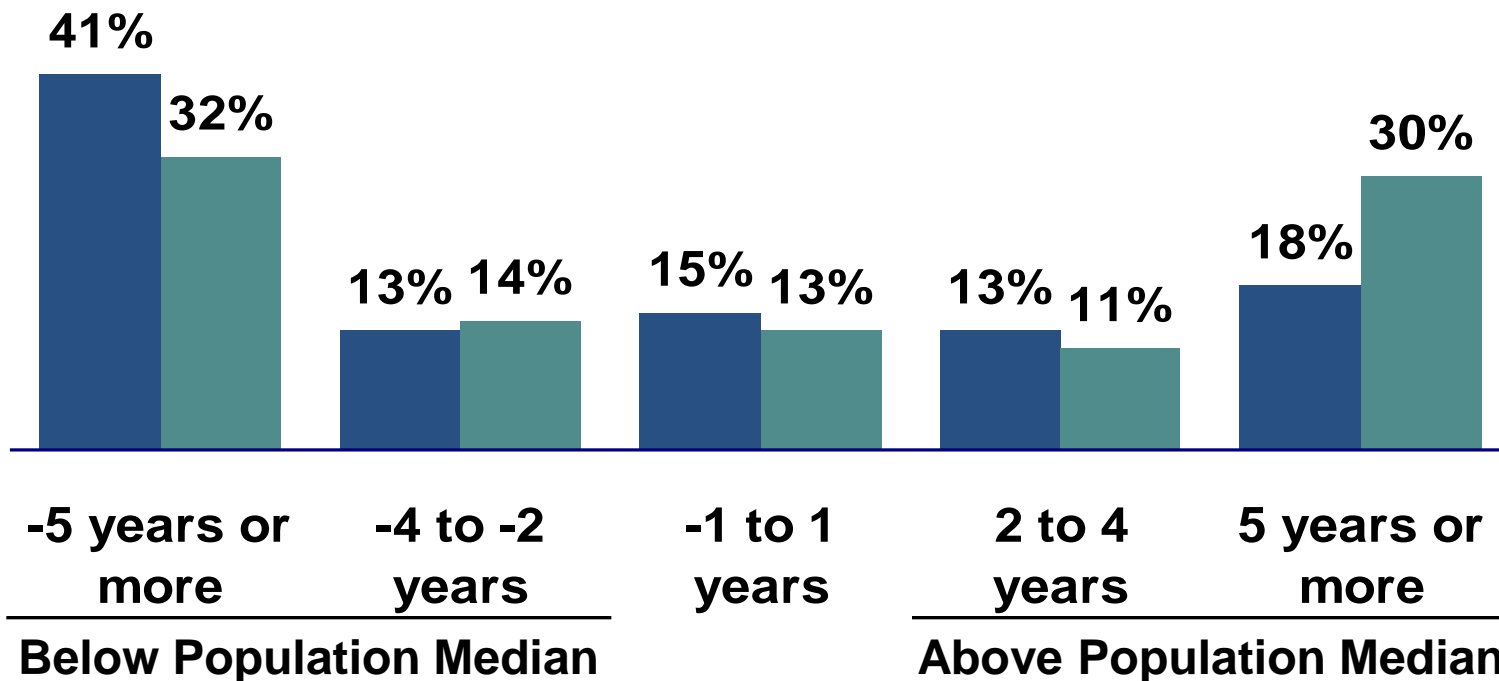


Understanding Longevity

But they do a slightly better job of estimating personal life expectancy

Difference between respondent estimate of personal life expectancy and actual population life expectancy (among those providing an estimate)

■ Retirees (n=708) ■ Pre-retirees (n=739)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

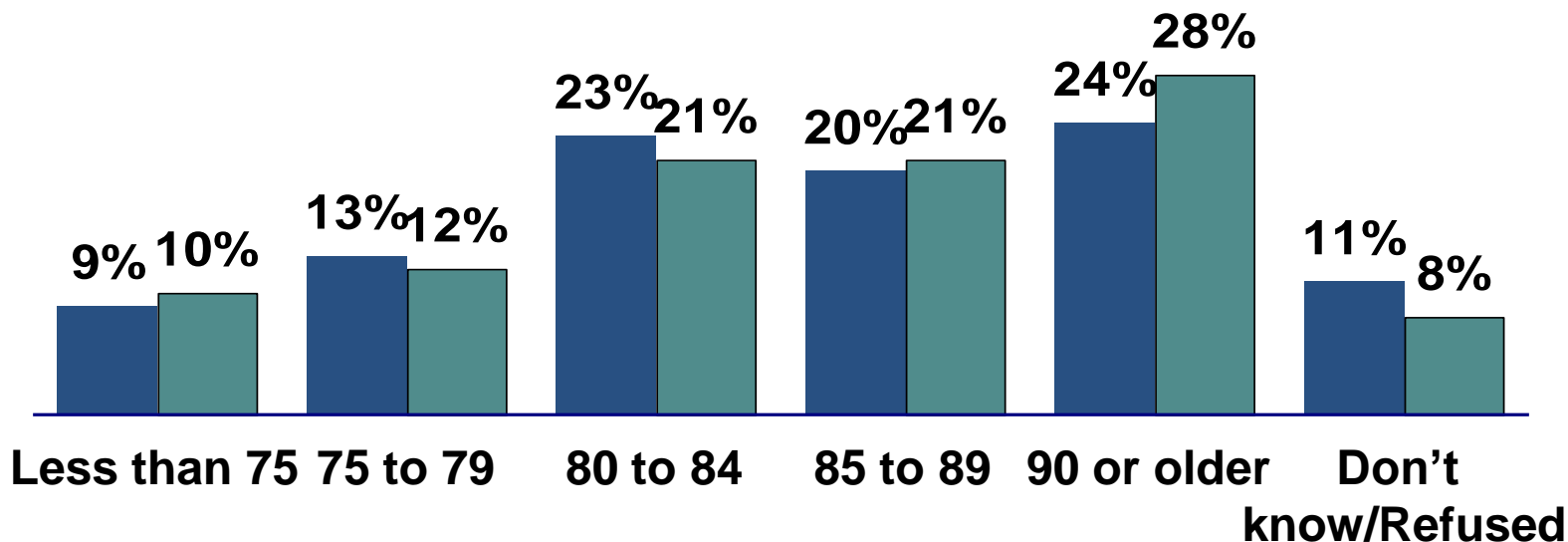


Understanding Longevity

Many expect to live well into their 80s

Until what age do you think that you, yourself, can expect to live?

■ Retirees (n=800) ■ Pre-retirees (n=800)

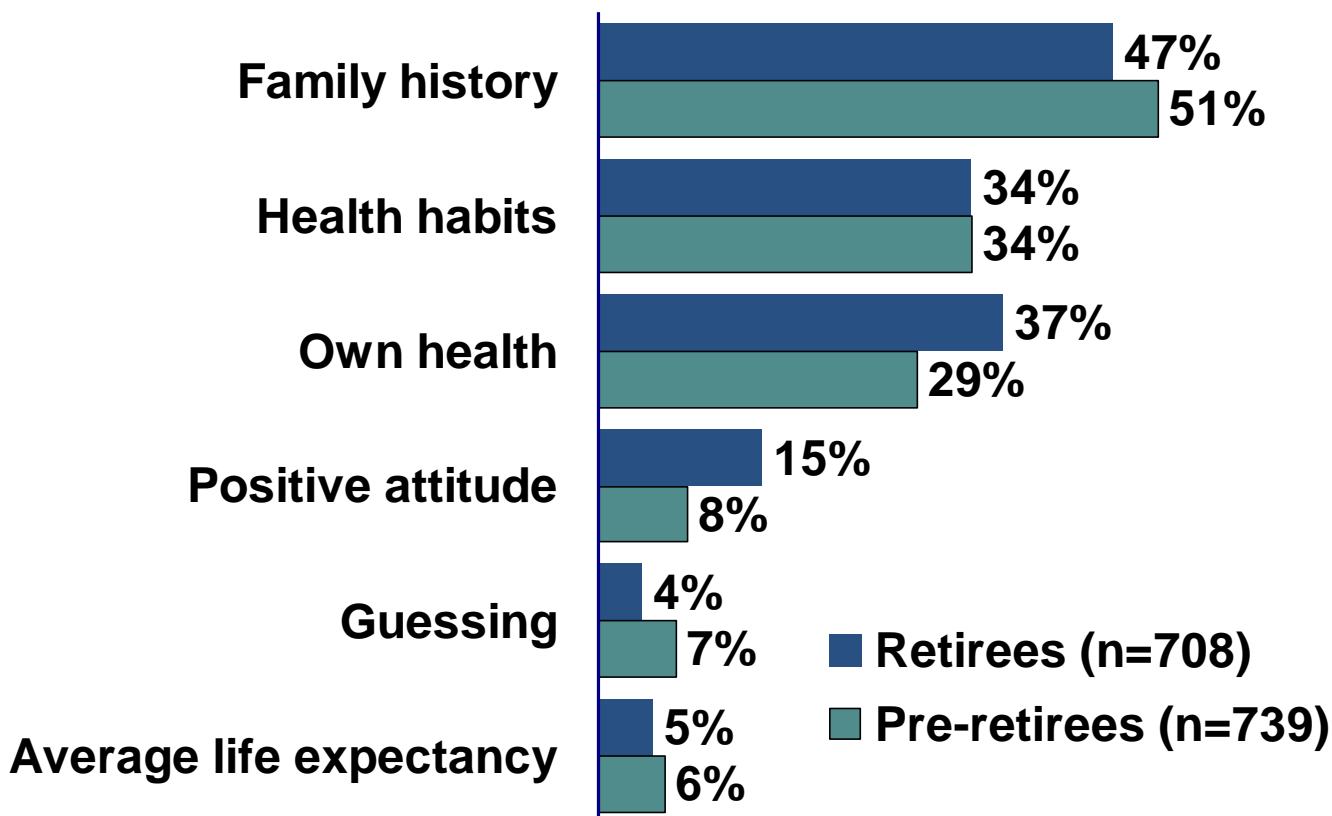


Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

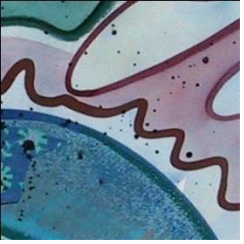
Understanding Longevity

Family history is most often the rationale for the estimate

Why do you think you will live until that age? (among those providing personal life expectancy) (Top mentions, multiple responses accepted)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey



Discussion

- What does this data mean to us?
- What should we tell clients?
- Do we need more information?



What changes during retirement

Phases of retirement

- Income
- Health status and life expectancy
- What people say and expect
 - Expectations about change and planning for it
 - Special focus of 2007 SOA Risks and Process of Retirement Survey
- What people do
 - Urban Institute analysis looks at time use and types of activity
 - Analysis of HRS Data by Barbara Butrica of Urban Institute



What changes during retirement

What changes by age: Median total income and reliance on Social Security

	Age 65-69	Age 70-74	Age 75-79	Age 80+
Median Total Income				
Married	\$47.3	\$39.9	\$33.3	\$30.6
Not married	\$19.0	\$16.1	\$15.9	\$14.7
Percent relying on Social Security for more than				
50% of income	41%	55%	63%	71%
90% of income	20	27	32	37

Note: Income is in thousands

Source: Rappaport, Anna, Risk Management Issues for Individuals with Special Emphasis for Women, Exhibit III, Society of Actuaries Living to 100 Monograph, 2011

What changes during retirement

Division of Life Expectancy (in years) by Health States (U.S. Data)

Age	Non-Disabled	Mild or moderate disability	More severely disabled	Total Life Expectancy
		MALES		
65	12.34	1.50	1.50	15.33
75	6.77	1.37	1.61	9.76
85	2.89	1.04	1.75	5.68
95	.81	.61	1.91	3.34
		FEMALES		
65	13.65	2.97	2.83	19.44
75	6.99	2.55	2.96	12.50
85	2.47	1.74	3.03	7.24
95	.52	.78	2.54	3.84

Source: Rappaport, Anna, Risk Management Issues for Individuals with Special Emphasis for Women, Exhibit VIII, Society of Actuaries Living to 100 Monograph, 2011



What changes during retirement

Half think their increasing needs will require more income

During this time, do you think you will need less money, more money, or about the same amount of money as before to cover your expenses?
(Among those experiencing each stage)

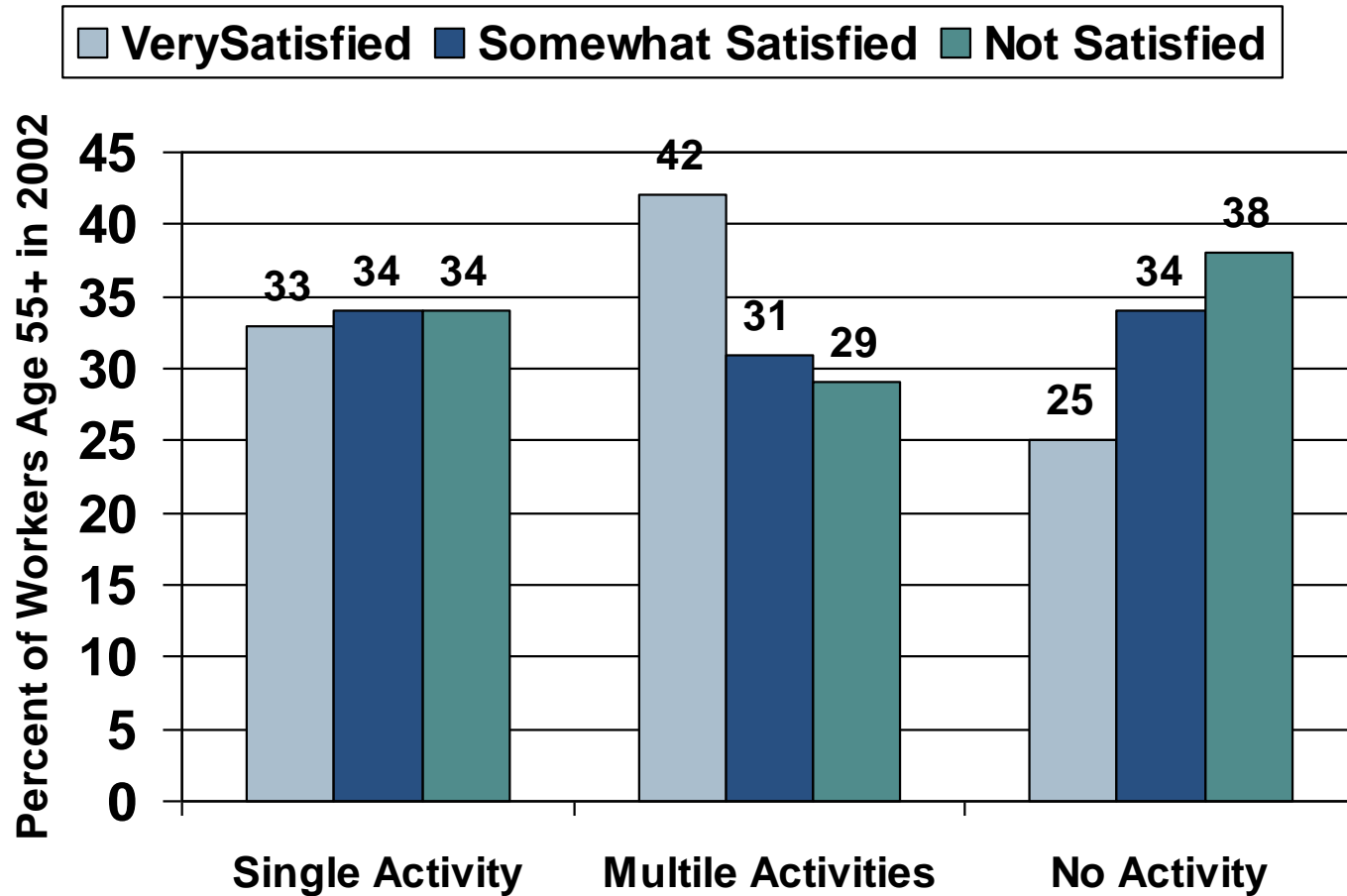
	Less Active Stage		Least Active Stage	
	Retirees (%) (n=284)	Pre-retirees (%) (n=337)	Retirees (%) (n=260)	Pre-retirees (%) (n=266)
More money	50	42	56	55
About the same amount of money	40	38	33	34
Less money	6	17	6	9
Don't know	4	3	5	3

Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



What changes during retirement

Seniors who are more active say they are more satisfied with retirement



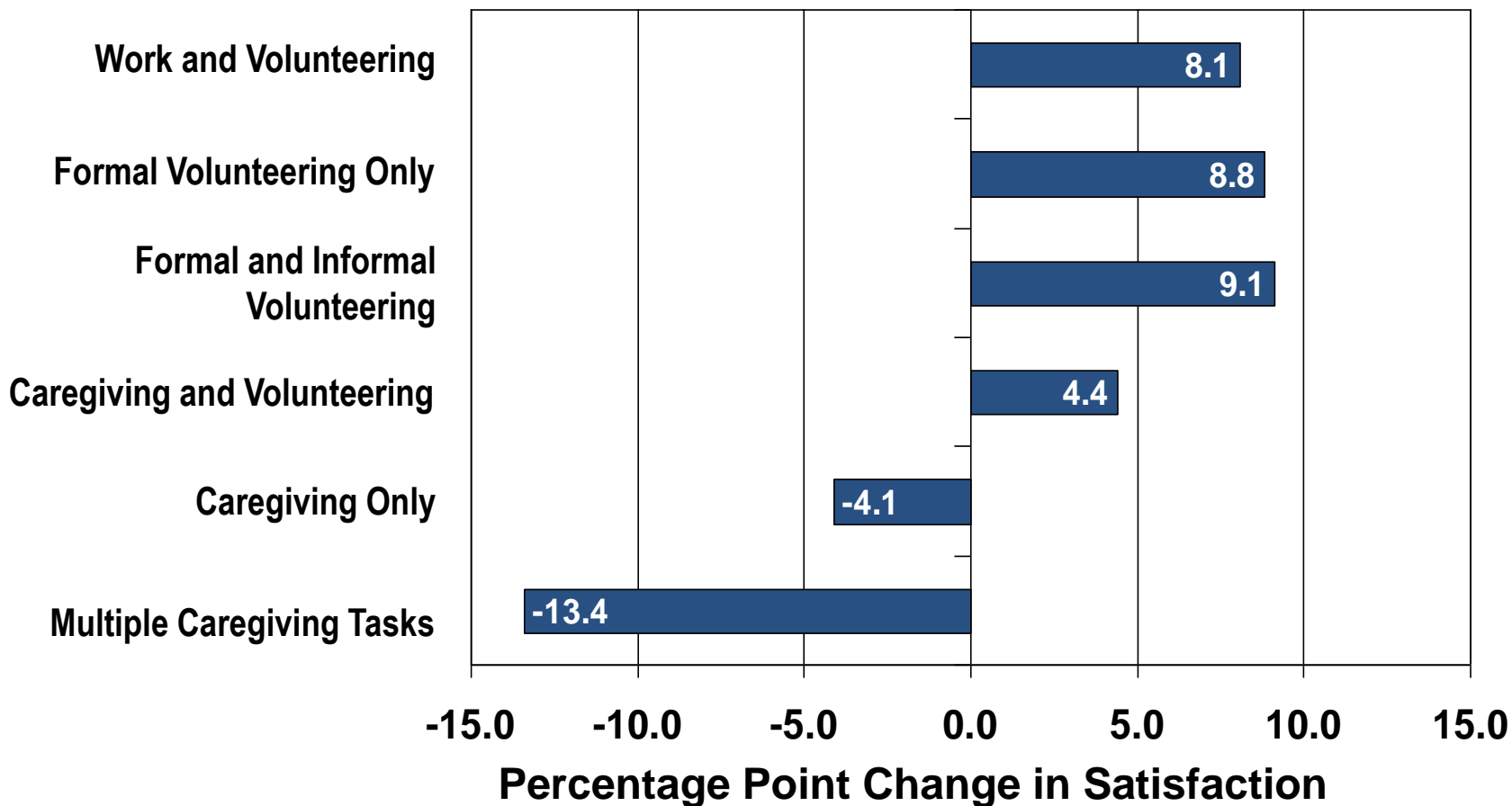
Source: Butrica, Barbara, How Do Older Americans Spend Their Time, Urban Institute



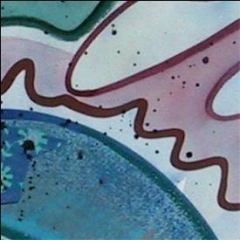
What changes during retirement

However, retirement satisfaction varies by the type of engagement

Retirees Age 55+ in 2002

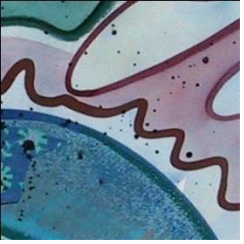


Source: Butrica, Barbara, How Do Older Americans Spend Their Time, Urban Institute



Discussion

- What does this data mean to us?
- What should we tell clients?
- Do we need more information?



Getting Involved

- SOA committee work
- Sharing research with your clients/employer and using it in your work
- Finding community groups that are interested in topics



Long-term Findings

- Misperceptions still exist after 20+ years of experience with 401(k) plans and IRAs
- There is a lot of stability in the survey results
- Unclear if the economic downturn will lead to better management/planning
- Longer-term risk management is very difficult for individuals
- Few workers are prepared for the risk of a sudden and unplanned early retirement



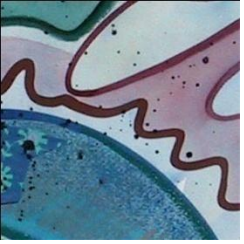
Long-term Findings

- Low appetite for guaranteed income products and persistent feeling that people can do it on their own
- Widows and very old will continue to be vulnerable
- A strong retirement system must include programs that work for those who will not take the initiative
- Education is important, but it cannot be the primary strategy and there are limits to what it can accomplish



Opportunities for Actuaries

- Actuaries are responsible for asking the right questions (and helping clients think about better solutions)
 - What happens when employees can't retire?
 - Can current systems be modified to improve risk options?
 - What products can better meet retiree needs?
- How should risk-protection systems change to meet the evolving work and retirement landscape?
- Motivating individuals to plan for retirement is extremely difficult
- Given how people make decisions, how do we help them better manage pools of assets?

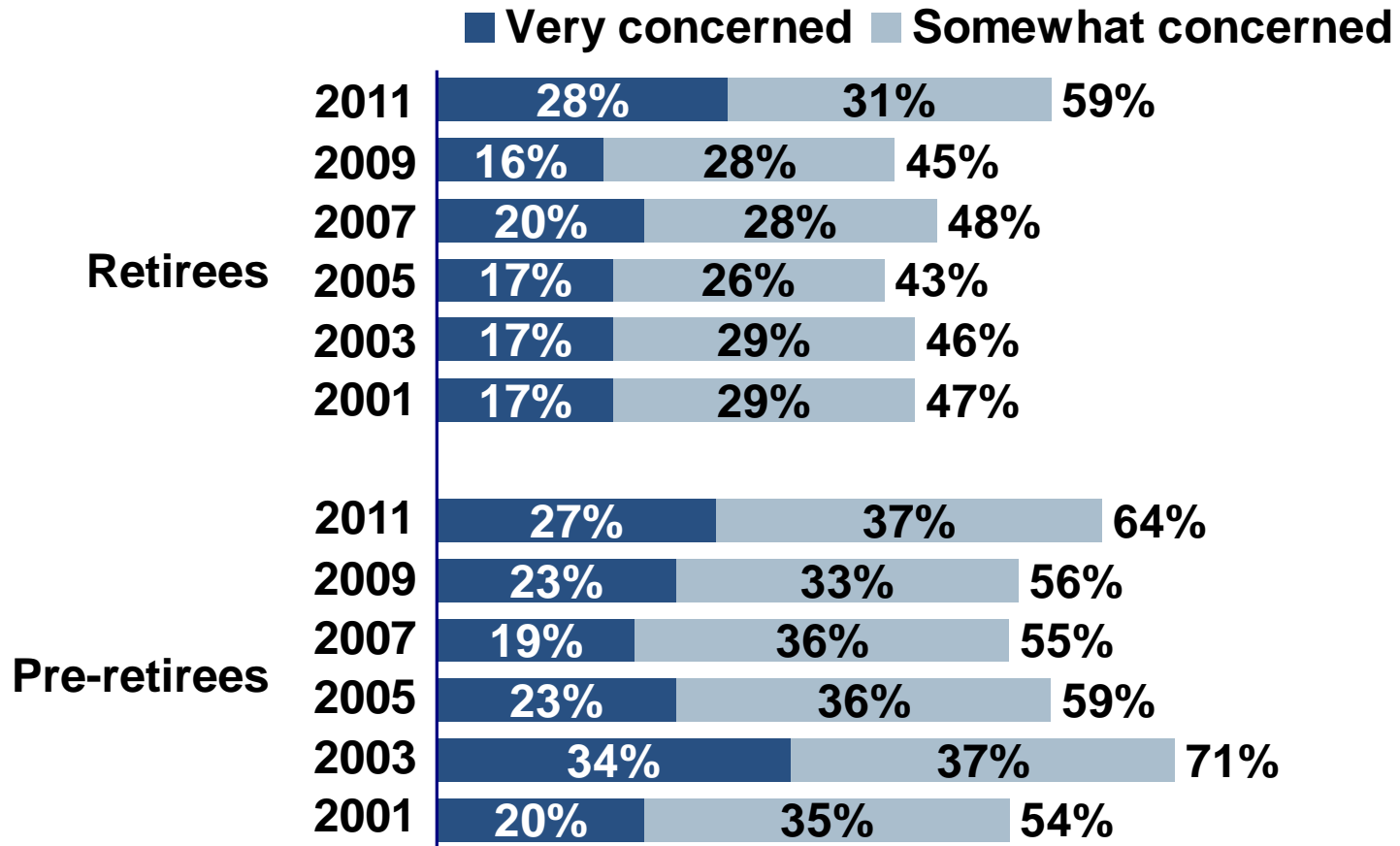


Appendix



Retiree concern about longevity risk is also up this year

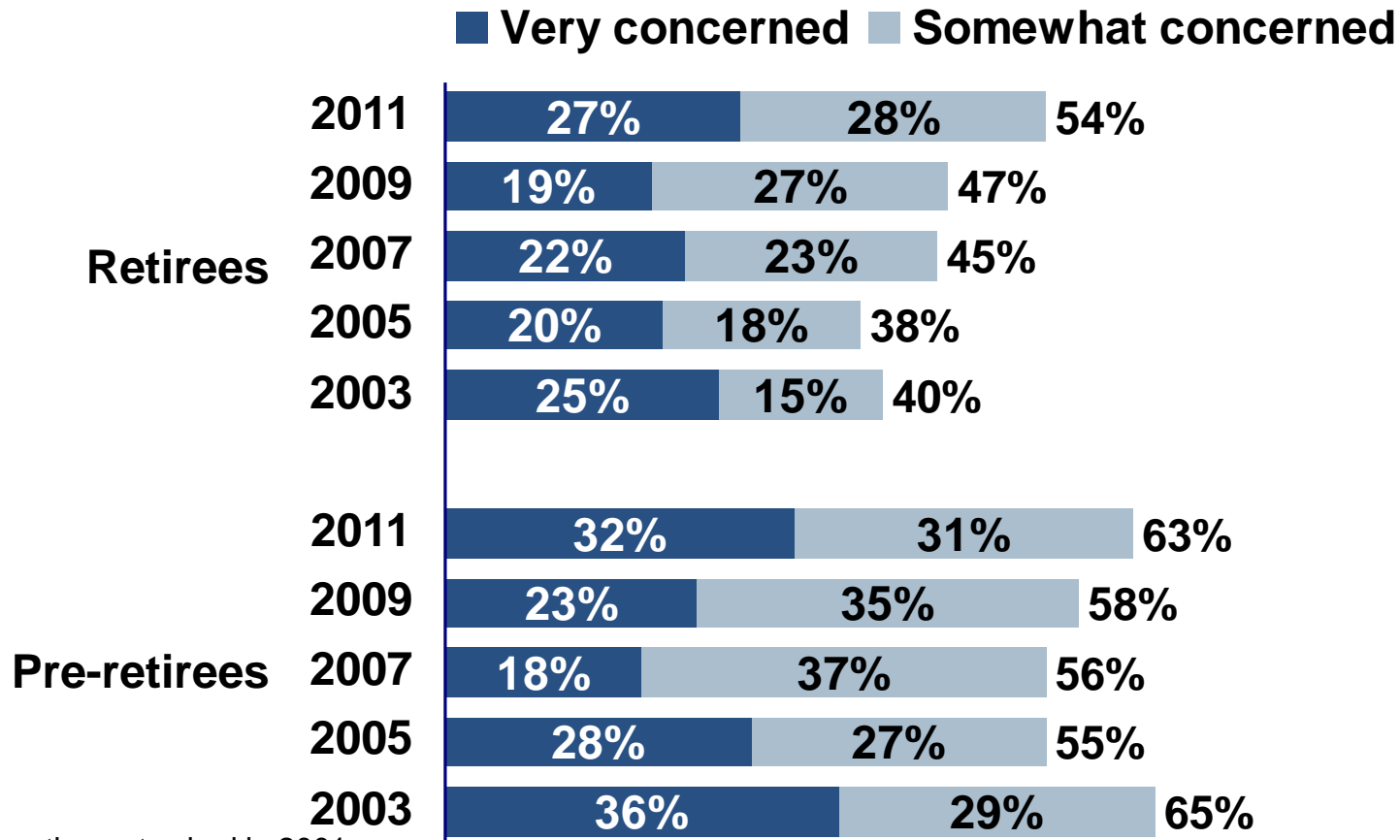
How concerned are you that you might not be able to maintain a reasonable standard of living for the rest of your life (in retirement)?



Source: Society of Actuaries, 2001-2011 Risks and Process of Retirement Surveys

Similarly, retirees show increased concern depleting savings

How concerned are you that you might deplete all of your savings (in retirement)? (Retirees, 2011 n=800; Pre-retirees, 2011 n=800)



*Question not asked in 2001.

Source: Society of Actuaries, 2003-2011 Risks and Process of Retirement Surveys



Work as Part of Retirement

Most who phase into retirement do it with “different” company

When you worked in retirement, which statement comes closest to describing what you actually did?/After you retire, do you think you will...?
(Multiple responses accepted) (Retirees who worked in retirement, 2011 n=361; Pre-retirees who expect to work in retirement, 2011 n=262)

	2005 Retirees (%)	2011 Retirees (%)	2005 Pre-retirees (%)	2011 Pre-retirees (%)
Same company as before	31	29	32	27
Different company	40	50	28	30
Self-employed	27	20	27	30
Don't know	4	3	13	13

Source: Society of Actuaries, 2005-2011 Risks and Process of Retirement Survey



Two in five “phasers” do a different type of work

Was the work you did for pay in retirement...?/Do you think the work you do for pay in retirement will be...? (Multiple responses accepted)
(Retirees who worked in retirement, 2011 n=361; Pre-retirees who expect to work in retirement, 2011 n=262

	2005 Retirees (%)	2011 Retirees (%)	2005 Pre-retirees (%)	2011 Pre-retirees (%)
Same as before	45	31	33	29
Different, but built on same skills	26	28	25	31
Entirely different	33	40	35	39
Don't know	1	2	5	5

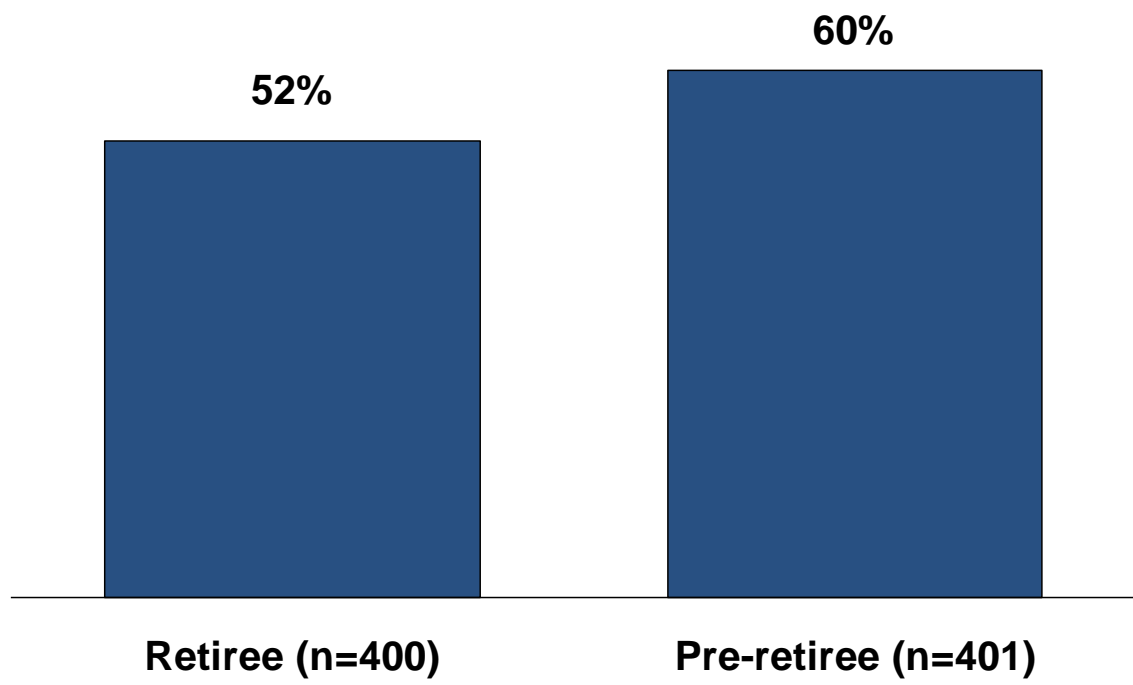
Source: Society of Actuaries, 2005-2011 Risks and Process of Retirement Survey



What changes during retirement

Only half of retirees have or expect an active stage of retirement

Do you think you will have a time in retirement when your abilities and needs are about the same as before you retired?



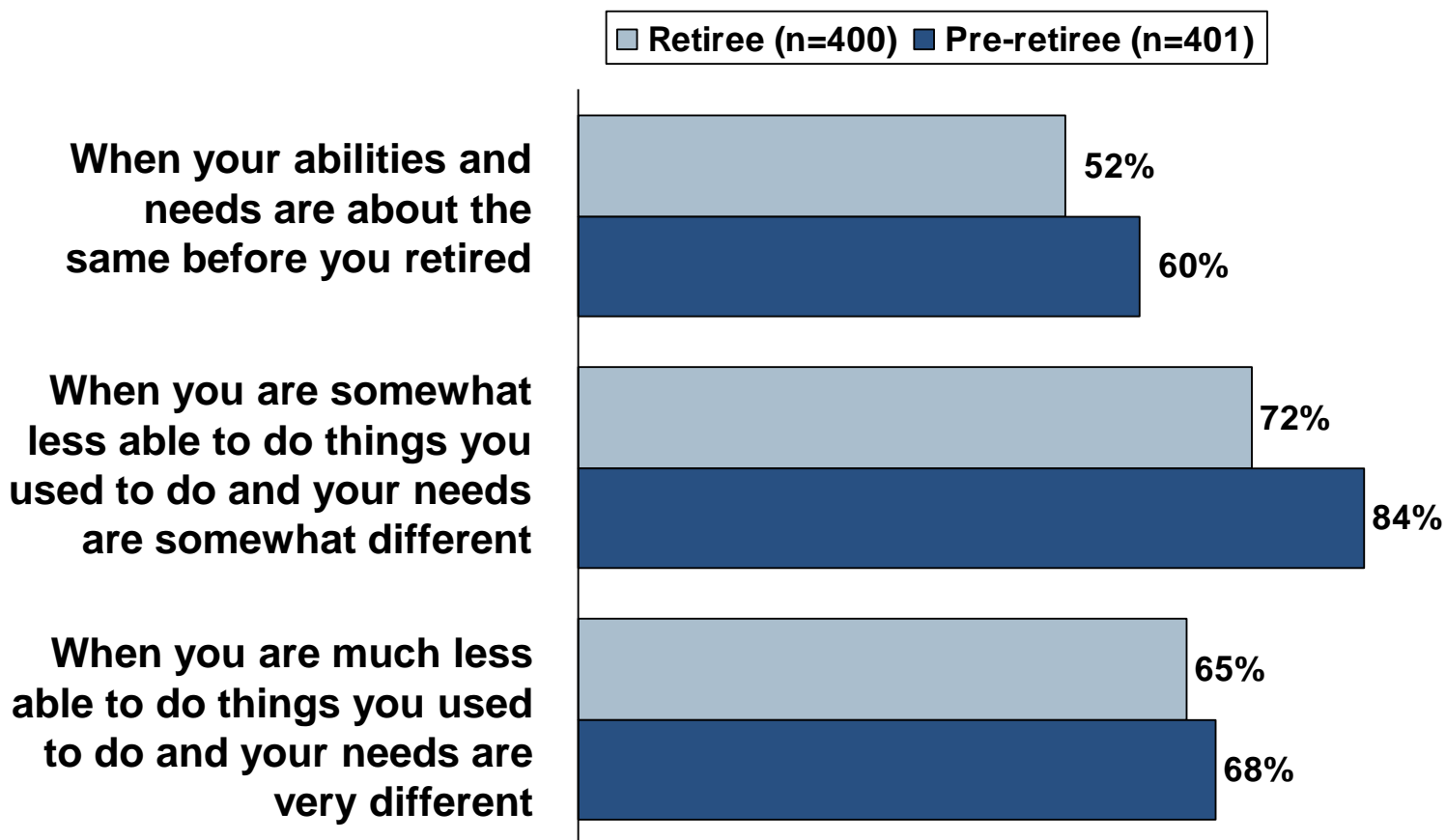
Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



What changes during retirement

A majority expect to experience some level of incapacity

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



Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



What changes during retirement

Dependence on family or community services is expected to increase

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 stage)

	Less Active Stage		Least Active Stage	
	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

Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

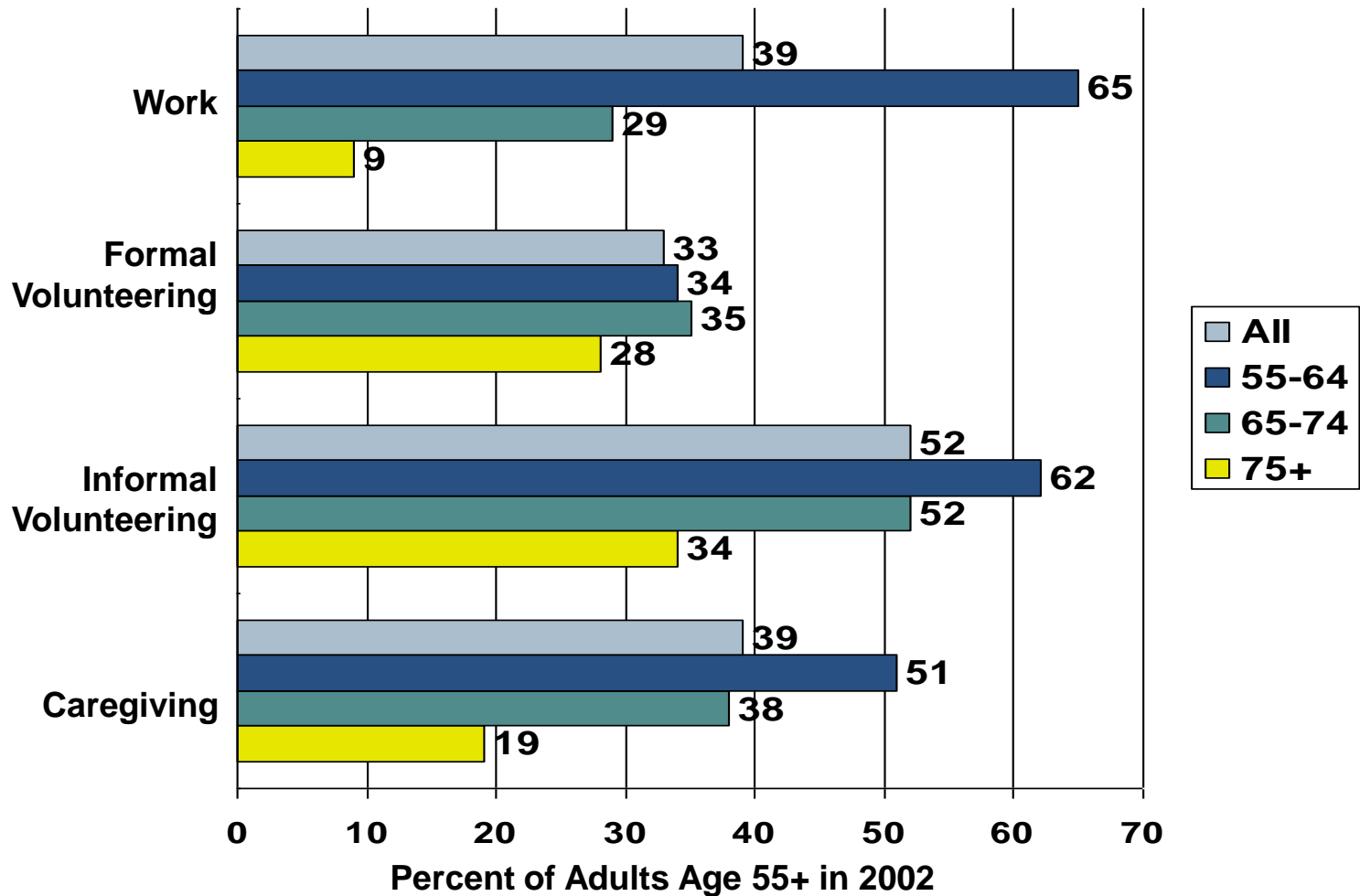


Research on how older Americans spend their time

- Uses Health and Retirement Study
- National data base—longitudinal study since 1992
- The 2004 HRS includes 20,129 respondents ages 51 and older.
- The HRS asks respondents about volunteering, parent care, child care, spouse care, work, time spent helping others, as well as their financial resources, religiosity, health status, and basic demographics.

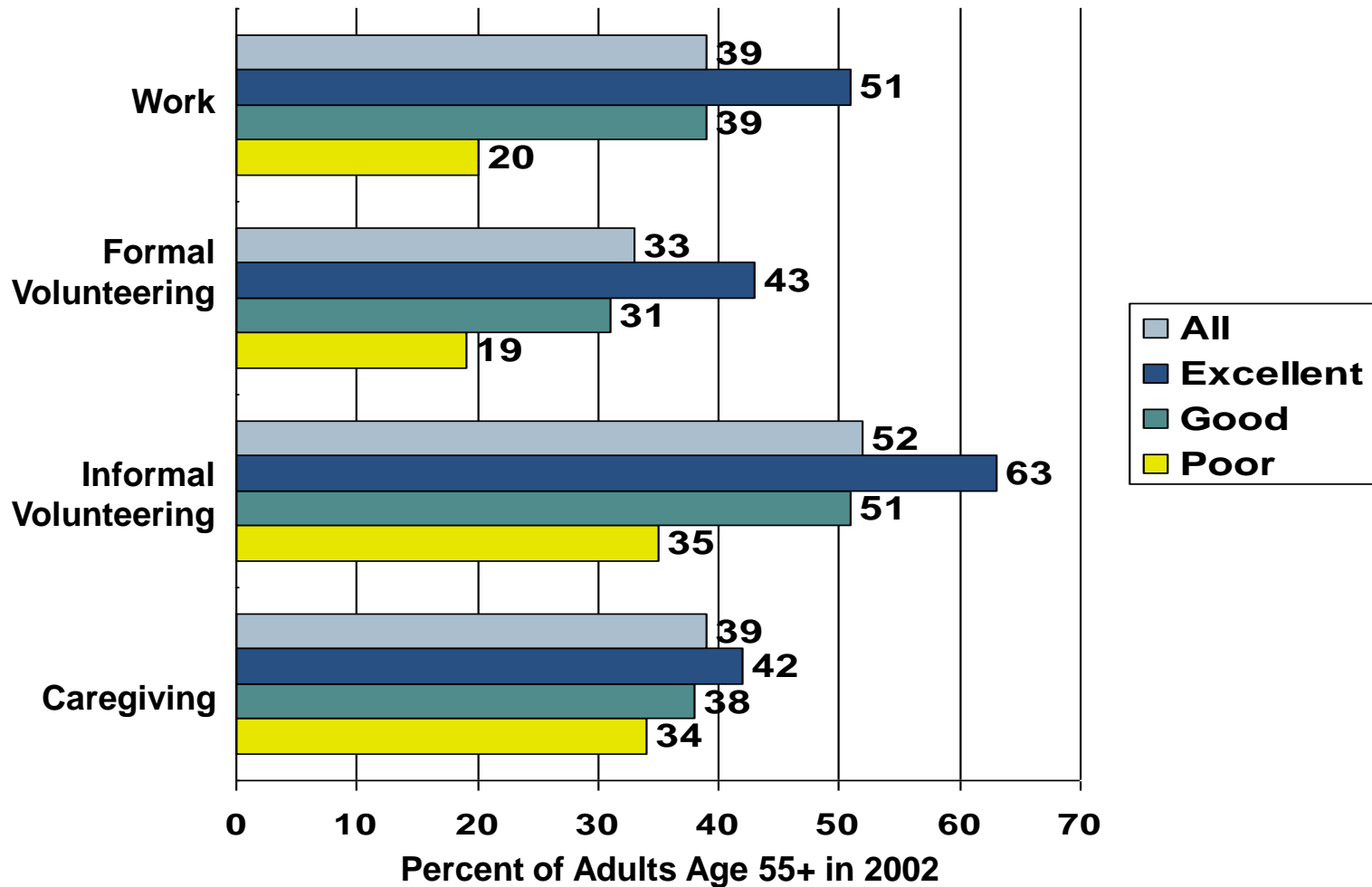
Question for planners and those supporting them: Do your clients need help in thinking about engagement and what will work best for them?

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



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

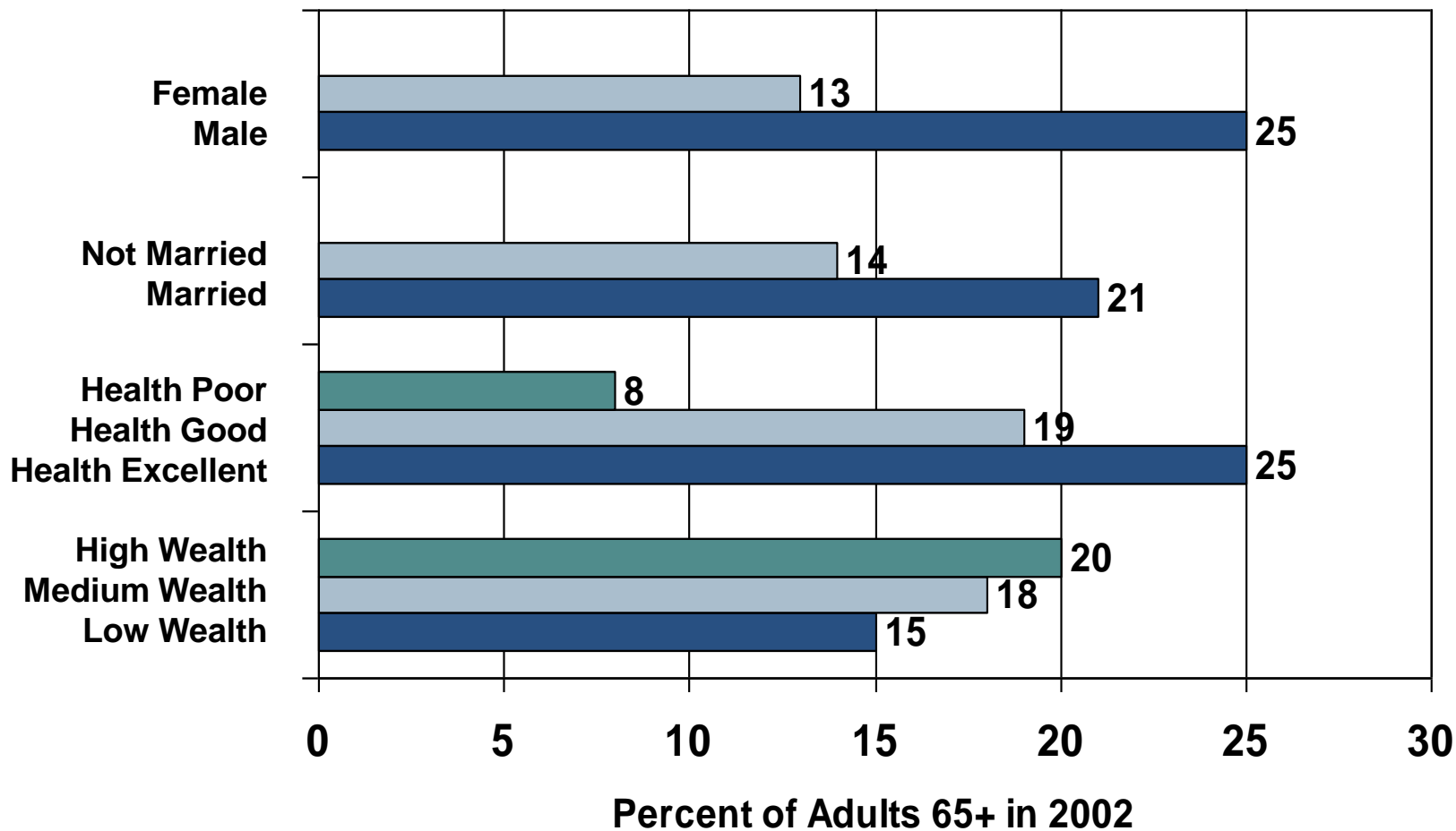
...and health status



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



Who works past age 65?



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

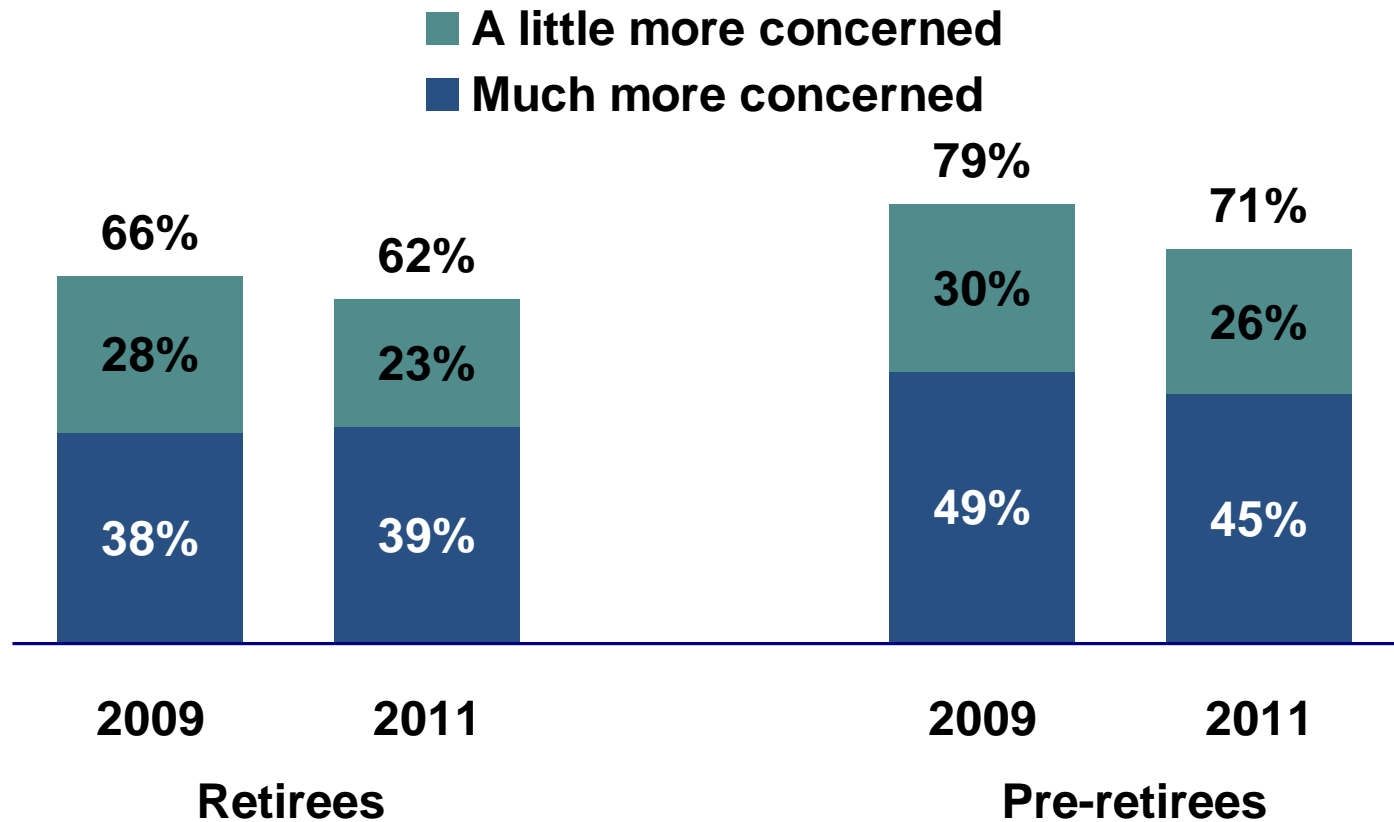


Response to Economic Conditions

- Findings from the 2011 Post Retirement Needs and Risk Survey
 - Not as impacted as in 2009
- Findings from The Financial Recovery Continues (joint study between SOA, LIMRA, InFRE)
 - Three series survey – 2008, 2009 and 2011
 - Retirees feel more financially secure and confident than in 2009, but not as secure as in early 2008
 - Spending cuts since 2008 have persisted, debt reduction since 2008 has persisted
 - Risk tolerance same as in 2009 and more conservative than in 2008

Pre-retirees concern about impact of equities/economy down from 2009.

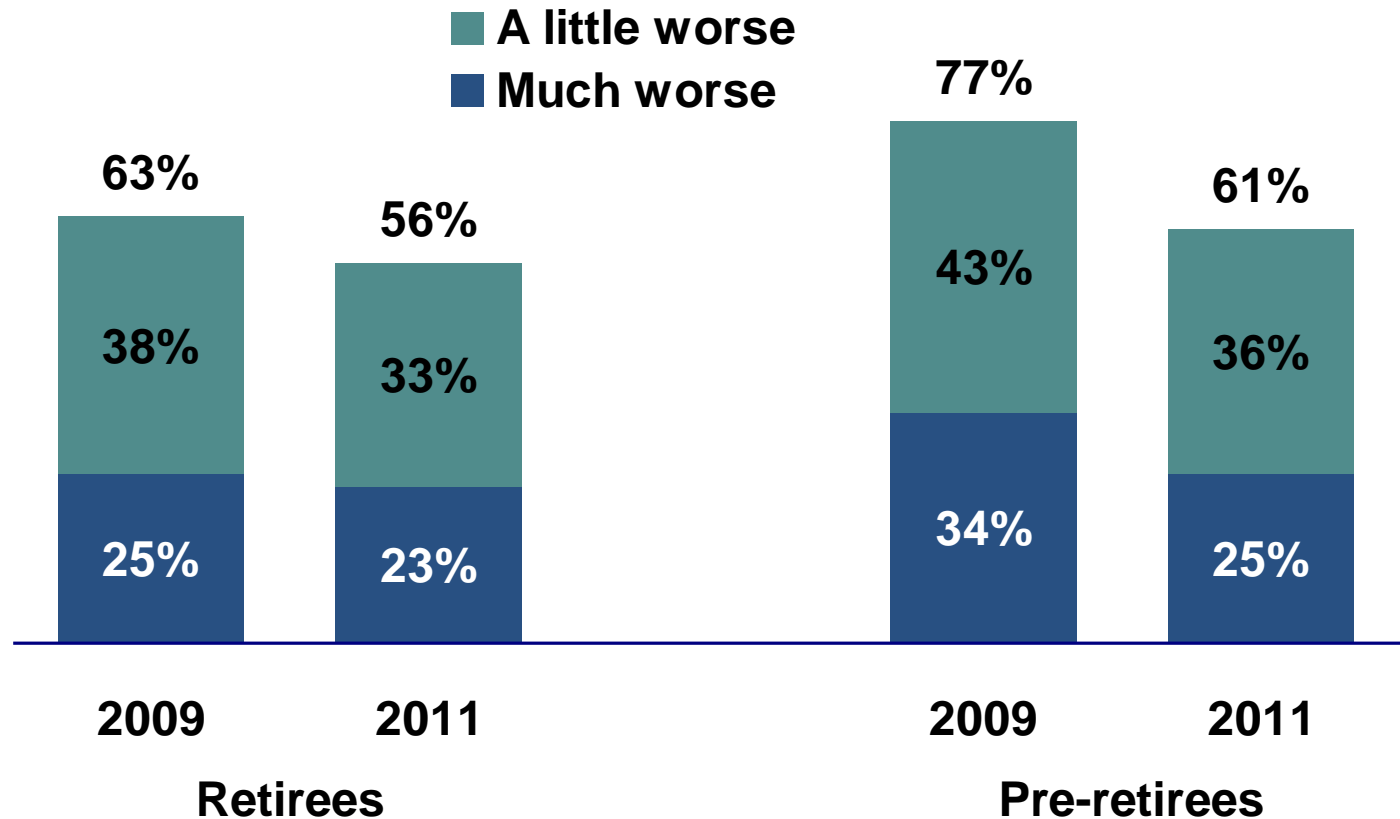
How much have the changes in the stock market and economy affected your financial concerns (about retirement)? Are you now...?
(Retirees, 2011 n=800; Pre-retirees, 2011 n=800)



Source: Society of Actuaries, 2009-2011 Risks and Process of Retirement Surveys

People are less likely to say their finances were negatively impacted.

How much would you say your finances have been impacted by the changes in the stock market and economy? Would you say your finances are now...? (Retirees, 2011 n=800; Pre-retirees, 2011 n=800)



Source: Society of Actuaries, 2009-2011 Risks and Process of Retirement Surveys



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