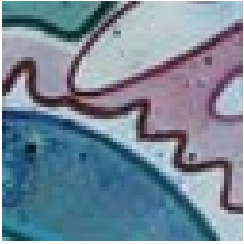


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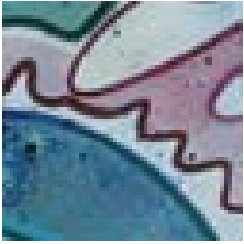
Actuaries Respond to an  
Aging Society

**Chicago Actuarial Association Meeting**  
**November 14, 2007**



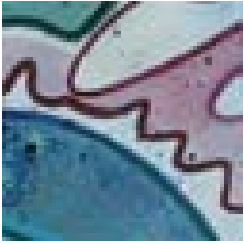
# Today's Presentation

- Helps us think about the aging society
- Focuses on
  - Actuarial profession research and innovation
  - 2007 Risks and Process of Retirement Survey
    - Trends and comparison to prior studies
    - Health and long-term care as huge issues
    - Phases of retirement – new focus
  - Links to other research
- Provides ideas about what we might do
- Shares some dreams



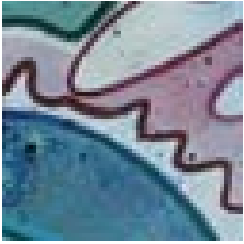
# Agenda

- Context and current situation
- 2007 Survey of Post-Retirement Risk and Process of Retirement
- Other SOA research and initiatives
- Summary and dreams for the future



# Context

- Population aging
  - Longer life spans
  - Boomers reaching retirement age
- Continued pressure on spending
  - Government and private sectors
  - Fewer lifetime benefits and more individual responsibility
- Health care = big national issue
  - Uninsured growing
  - Less retiree health
  - Medicare: uncertain future + higher premiums



# 21st Century Challenges

- Growing conflict over values and security
- Demographics: aging population + low fertility = increasing dependency ratios
  - People need/want to work longer
  - Fewer entrants to labor force
  - Stress on intergenerational transfers/pay-as-you go programs
- Adjusting to evolving definition of retirement
- Global competition: pressure on labor costs > pressure on health
- Regulatory + accounting uncertainty/litigation
- Low savings rates and financial literacy



# Trends and realities: Demographics

- Key trends
  - Living longer
  - Older population—partially result of Baby Boom
  - Healthy longer but not forever
  - More divorce
- New ways to think about life cycle
  - Third age: period between full time work and total retirement
  - During transition period
    - Some work and more leisure
    - Supplement earnings with retirement resources



# Trends and Realities

## Demographics—aging populations

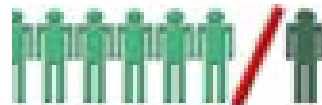
Changing ratio of active workers to retirees

**Country**                      **Current**                      **Projected 2030**

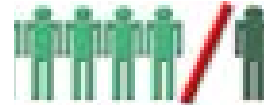
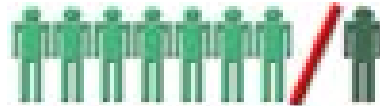
**Canada**



**China**



**India**



**Italy**



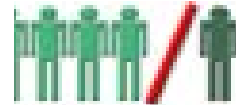
**Japan**



**UK**



**US**



Reasons & Implications

- **Declining fertility rates: fewer workers**
- **Aging population: older workers**
- **Increased life expectancies: longer retirement**



Source: p. 61-63 *Global Aging Capital Market Implications*, Goldman Sachs, 2001



# Trends and Realities 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

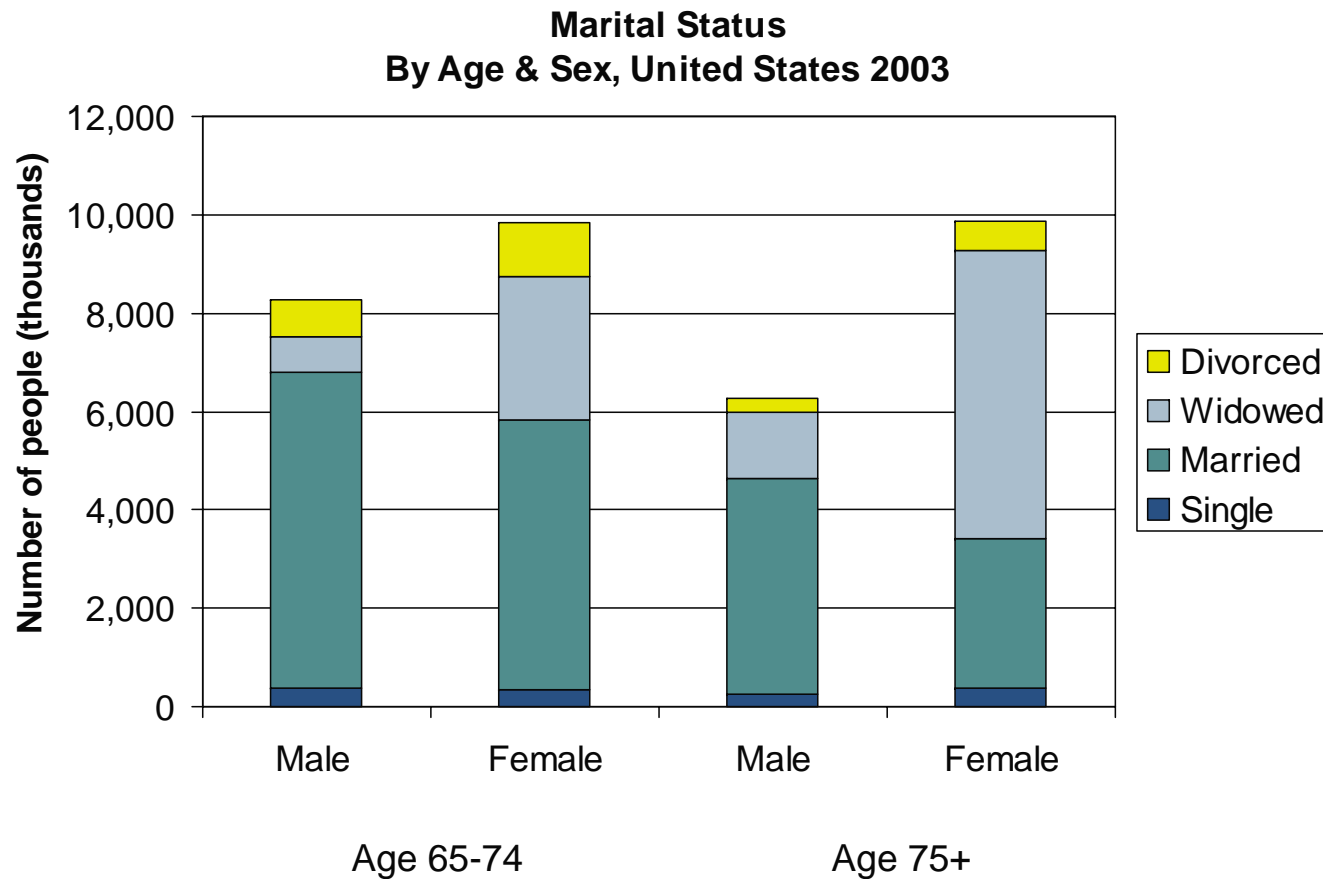
Source: *Why Are So Many Older Women Poor?*, Center For Retirement Research, Boston College, April 2004.





# Trends and Realities

## US Marital Status, Age 65+



Source: U.S. Census Bureau, *Statistical Abstract of the United States: 2004-2005*, Table No. 53



# How individuals think about retirement

- Focus is on investments: not risk transfer
- Planning time horizon and focus
  - Relatively short/take things as they come
  - Many use intuitive approach
- Perceptions
  - Can do better on their own: overestimate safe withdrawals and don't focus on longevity
  - Annuity products have poor image (reinforced by advisors)  
Inability to change mind later is big negative to annuities
- Main risk reduction strategy is to reduce spending
- More likely to chose investment advisor than broad based planner



# Focus on post-retirement risk

## Overview: Public understanding

- Continue to be major gaps in risk understanding
- Health care, long-term care and inflation continue to lead list of concerns
- Differences between retirees and pre-retirees
- Consistency in what we are hearing across time and across surveys



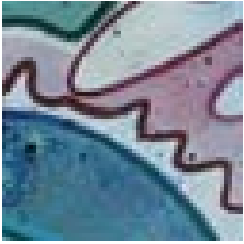
# Potential disruptions to stability: Risks Americans face in old age

## **Risks transferable, poolable**

- Longevity: individual and spouse
- Cost of disability and long-term care
- Cost of acute health care
- Economic loss on death of spouse
- Investment risk and interest rate risk

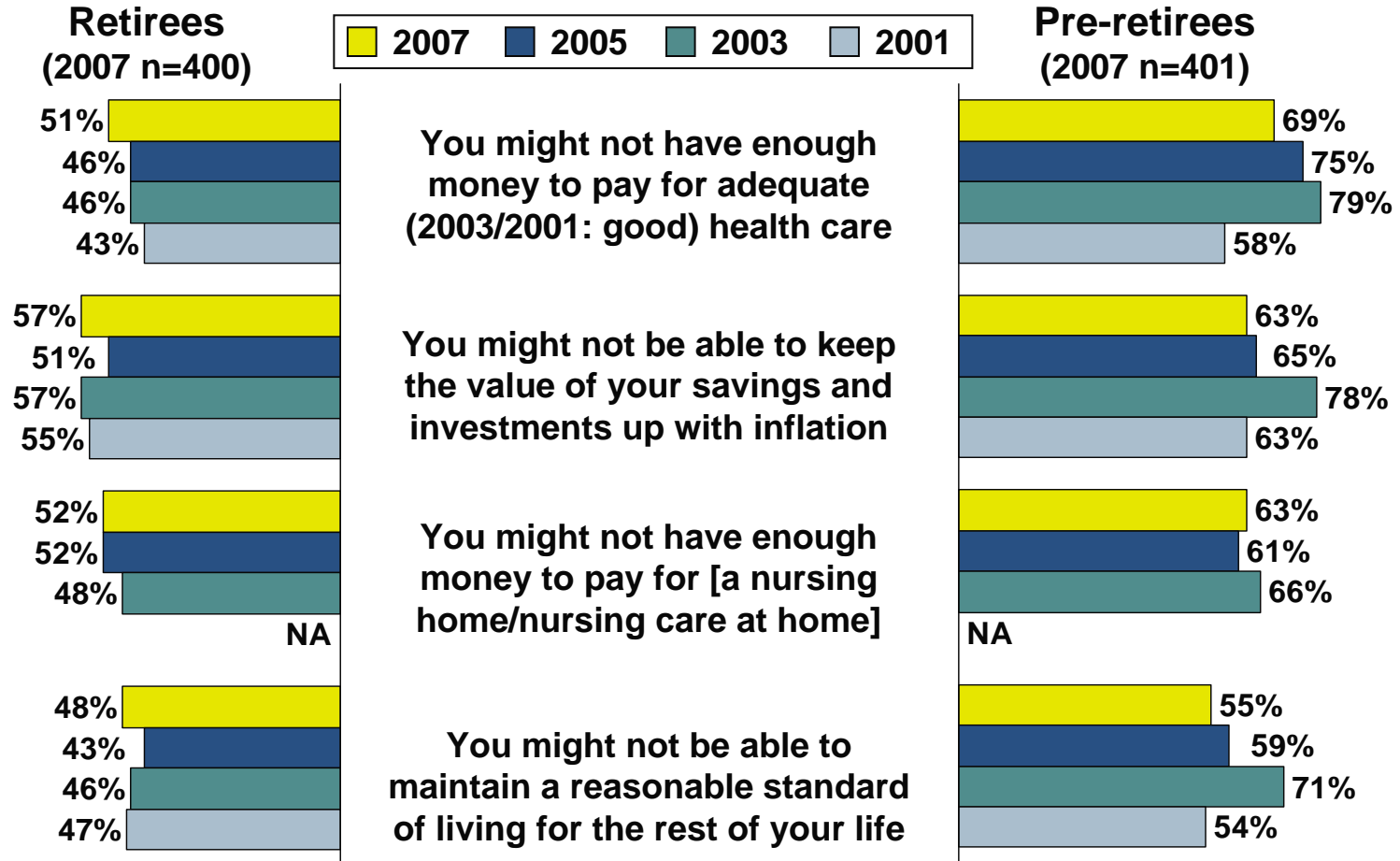
## **Examples of other risks**

- Inability to find job, earn expected income
- Premature retirement risk
- Family members needing care
- Inflation risk (sometimes transferred)



# Concerns about risk are fairly constant

How concerned are you that...? (Percentage very or somewhat concerned)



Source: Society of Actuaries, 2001–2007 Risks and Process of Retirement Surveys



# Emerging values/ideas about risk

“The Great Risk Shift is not just an economic change; it is also an ideological change. For decades, Americans and their government were committed to a powerful set of ideals that combined a commitment to economic security with a faith in economic opportunity. .... Today the message is starkly different, *you are on your own.*”

Jacob S. Hacker, [The Great Risk Shift](#), 2006

- Social Security reform options driven by values
- Benefit structures influenced by values
- Huge amounts of risks have shifted to the individual



# How well do individuals handle risk?

- Little longer term planning
- Gaps and misperceptions in what people know
- Behaviors often lead to poorer health
- Don't recognize that long-term care risk applies to them
- Much more confidence in future retirement security than assets to back it up
- Underestimate importance of Social Security, overestimate what they will get from savings and employer plans

Bottom line—many gaps in decisions/planning

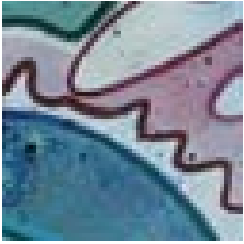


# Health and Long-Term Care: The elephant in the room



***“An effective, workable health reform policy must successfully address the interrelationships among costs, quality and access.”***  
**National Business Group on Health, July 2006**  
**Future of employer role depends on total health care system issues**





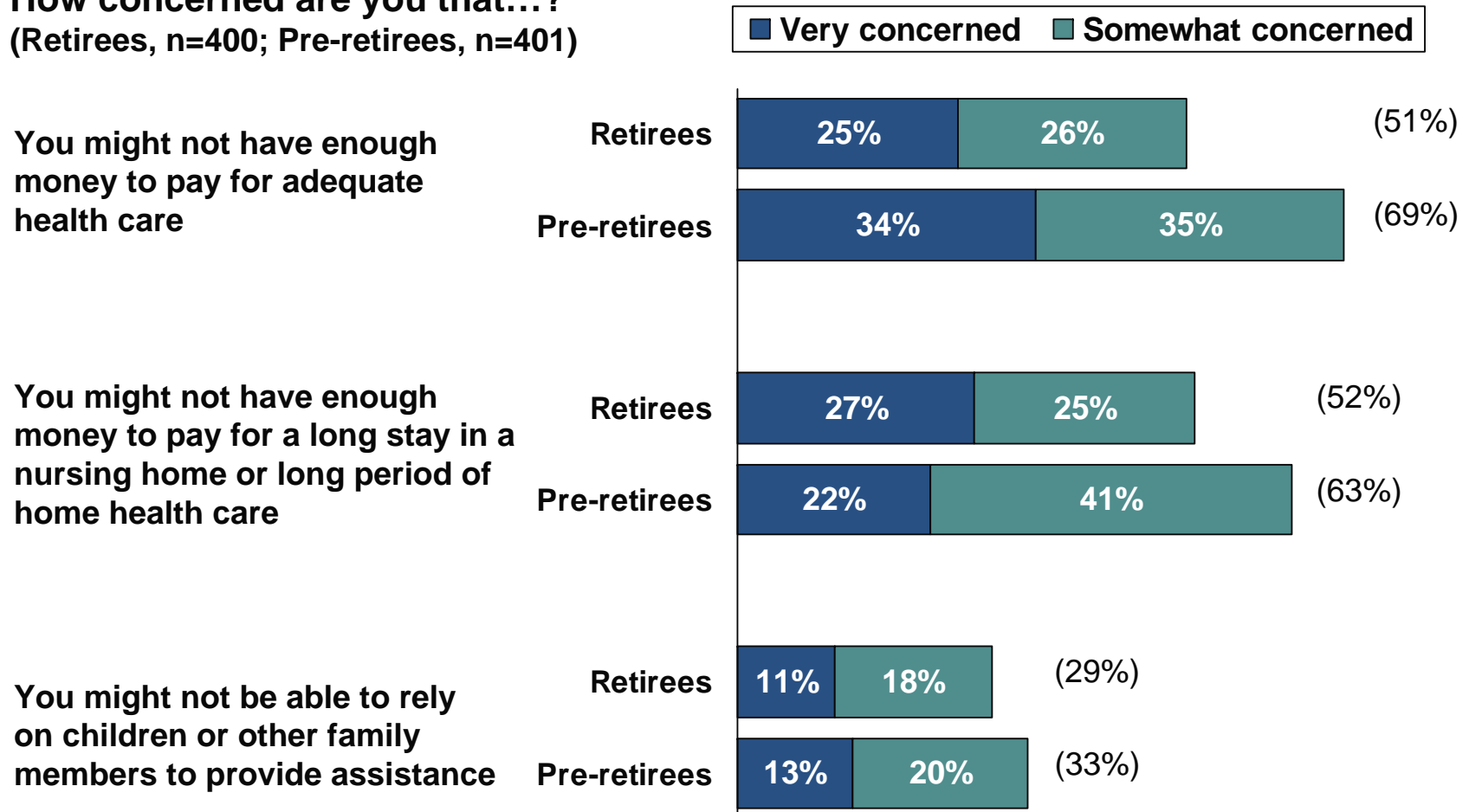
# Health Care = big national issue

- Health care =
  - States very active in reform
  - Big issue for 2008 election
  - Costs rising faster than inflation and earnings
  - Medicare: uncertain future + higher premiums
  - Major business group (ERIC) has proposed moving away from employer-based system
    - Includes mandate
    - Includes regional purchasing cooperatives



# Health and long-term care risks are most likely to worry pre-retirees

**How concerned are you that...?**  
(Retirees, n=400; Pre-retirees, n=401)



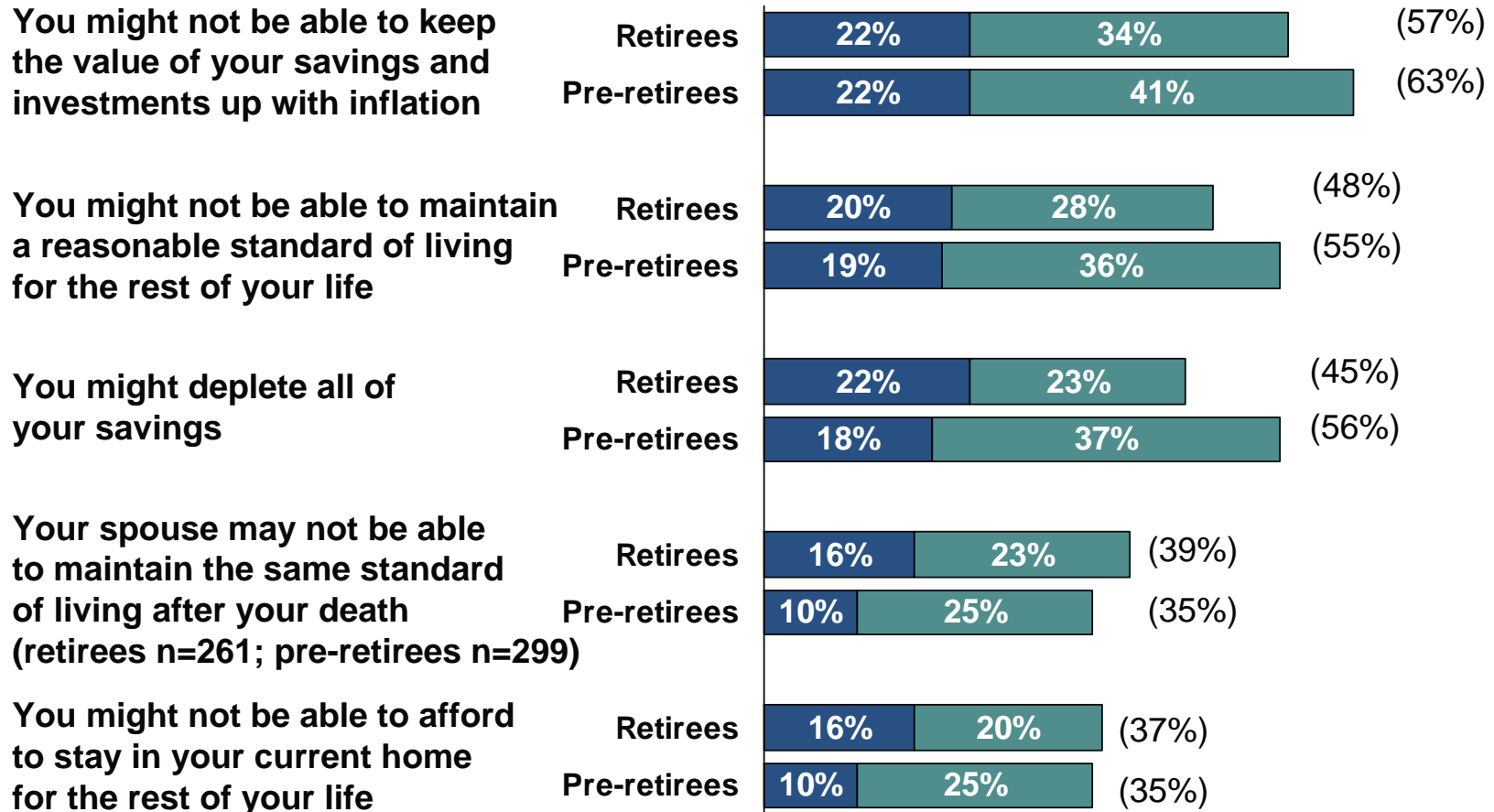
Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



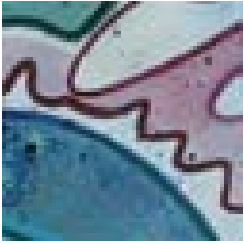
# Inflation continues to be a top concern of retirees

**How concerned are you that...?**  
 (Retirees, n=400; Pre-retirees, n=401)

■ Very concerned   ■ Somewhat concerned

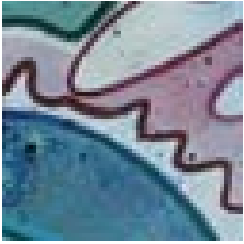


Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



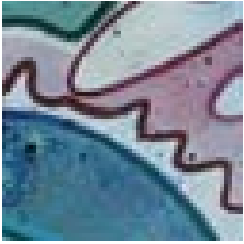
# Inflation

- Most important risk concern for retirees, second for pre-retirees
- Other research indicates that little is done to address the issue
- Experience of last few years
  - Big increases in health costs and premiums
  - Otherwise modest inflation
- Very serious long-term issue



# Stages of retirement

- Different way to think about retirement
- Can be defined by activity level, working or not working, age, health status
- Survey defines stages based on abilities and associated needs
- Planning often focused on first stage
- Pre-retirees expect to retire differently than current retirees
  - Ignoring premature retirement risk
  - Big group says retirement does not apply



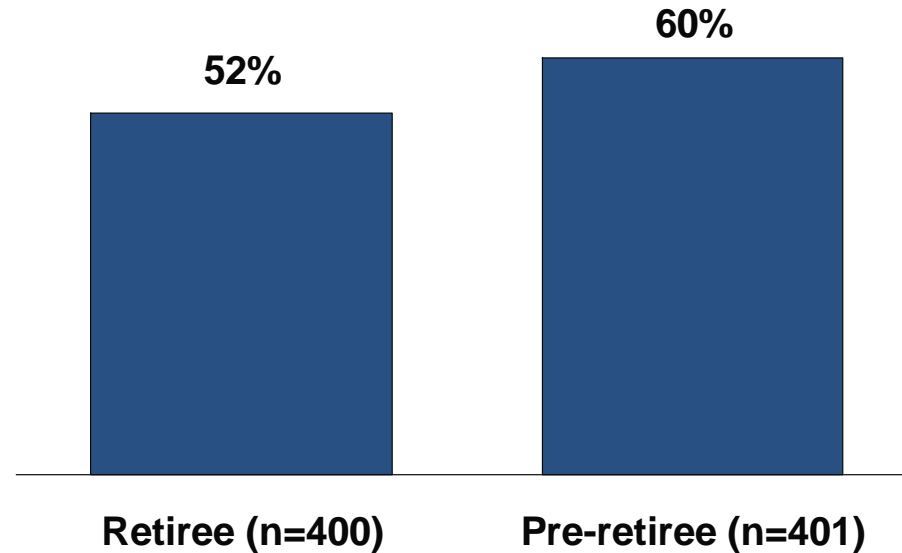
# Stages of retirement

- Those who expect to work are unlikely to do so after age 75
- Couple issues
  - Timing of retirement
  - Changes at death of spouse
- Other research shows changes in activities, time use
  - Papers will be available in monograph



# 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



## Pre-retirees expect to retire later than retirees, 1 in 3 say it doesn't apply

How old were you when you retired or began to retire from your primary occupation?/At what age do you expect to retire from your primary occupation?

Age category	Retirees (%) (n=400)	Pre-retirees (%) (n=401)
Under age 55	31	1
55 to 61	30	16
62 to 64	16	12
65 to 69	13	27
70 or older	4	6
Will not retire	1	1
Doesn't apply	3	32
Don't know	2	6

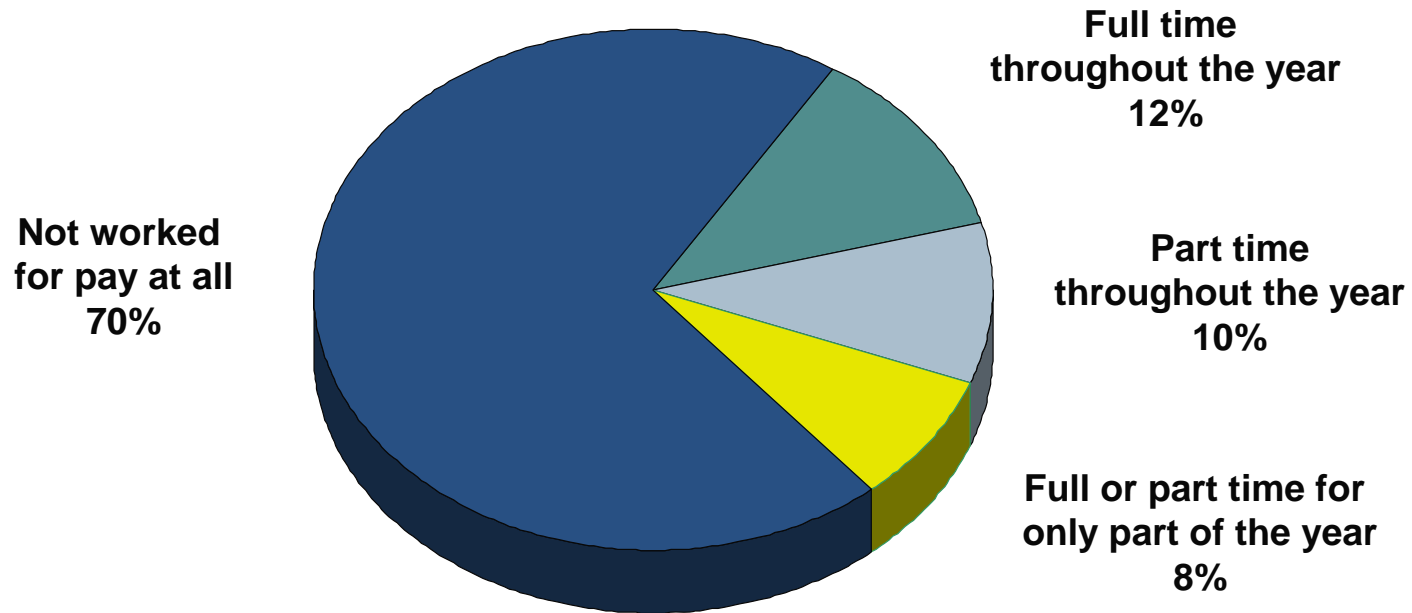
Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey





# Phased retirement already exists informally

**In the past 12 months, have you worked for pay . . . ? (Retirees, n=400)**

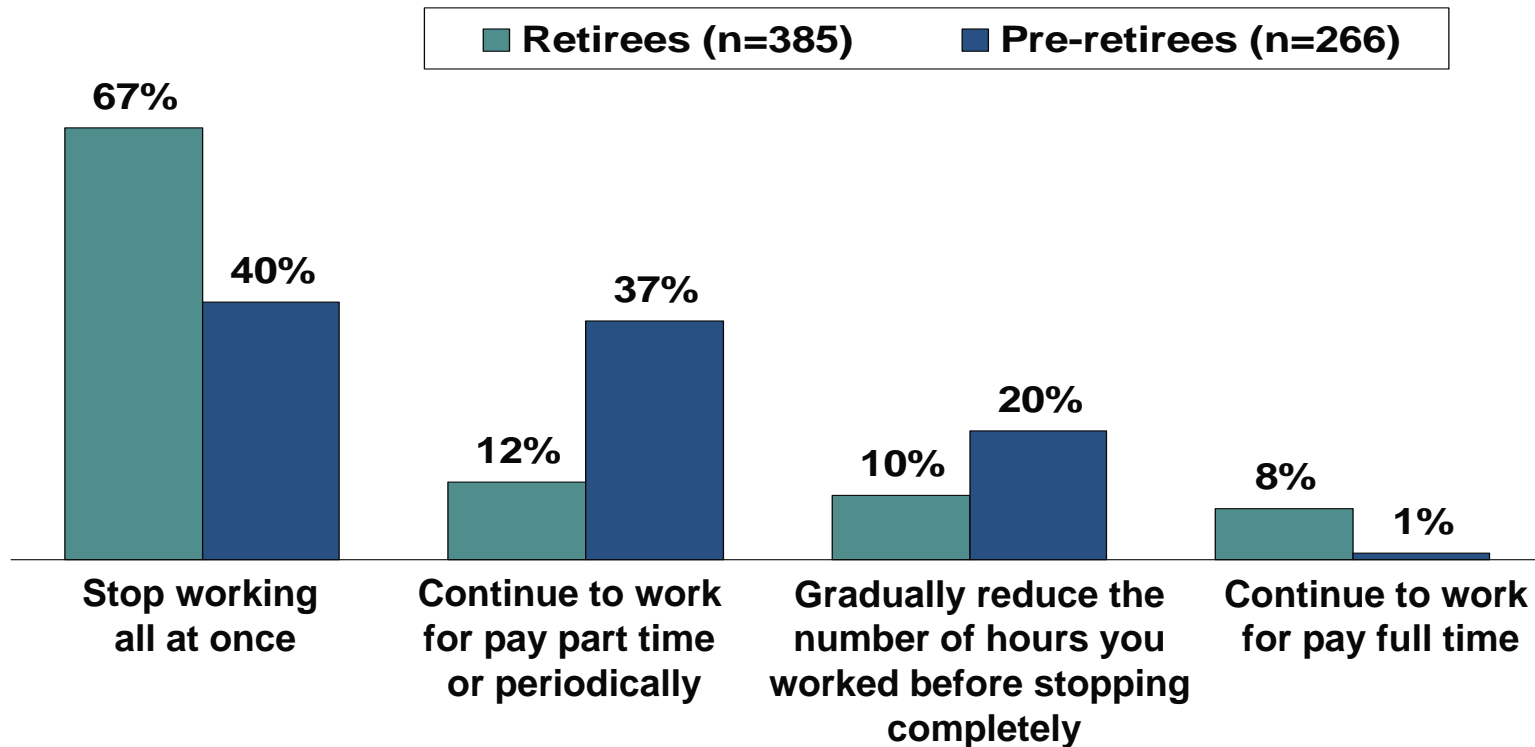


Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



# And phased retirement will likely increase in the future

Which statement comes closest to describing how you retired/plan to retire from your primary occupation? (Among those providing retirement age from primary occupation)

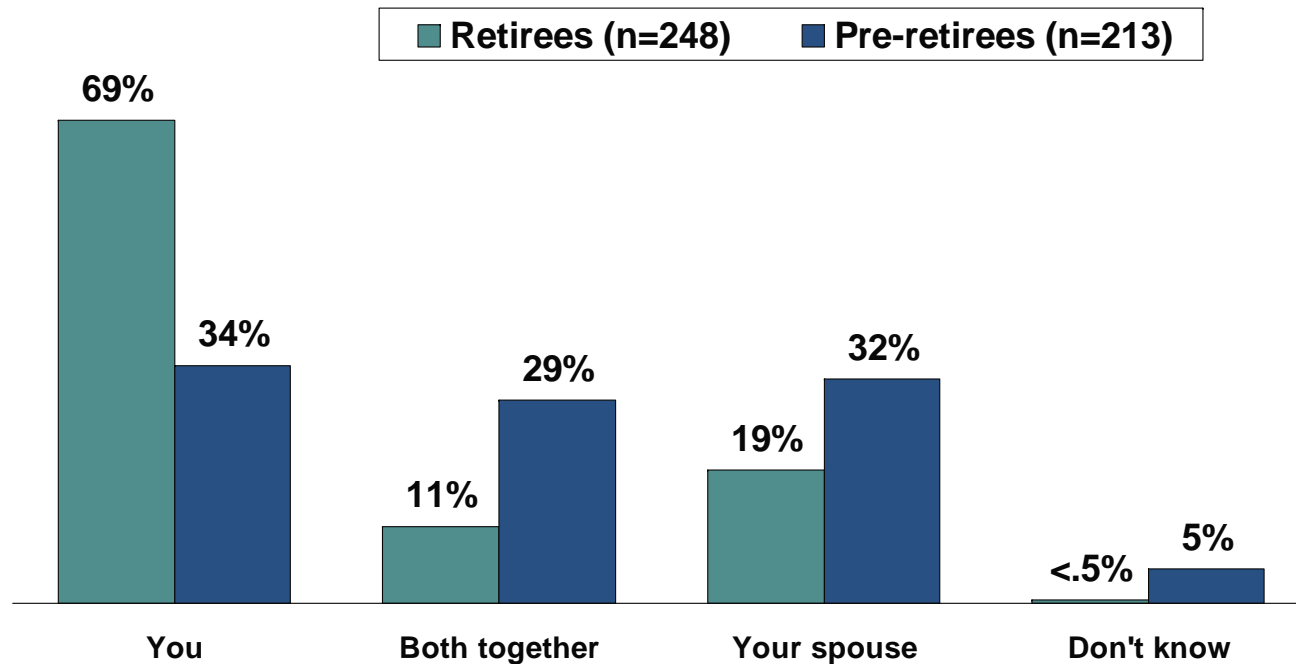


Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



# Few retire at the same time as their spouse

**Who retired/will retire first? You, your spouse, or will you and your spouse retire together? (Among married retirees and pre-retirees providing retirement age from primary occupation)**

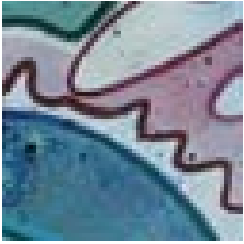


Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



# For those who want to work, will opportunities exist?

- Wide range of views around future shortages of workers
- Labor force will grow more slowly
- Specific occupations will face challenges
  - Nurses, nuclear engineers, e.g.
  - How many and where?
- Needs for workers subject to
  - Changes in market need
  - Outsourcing



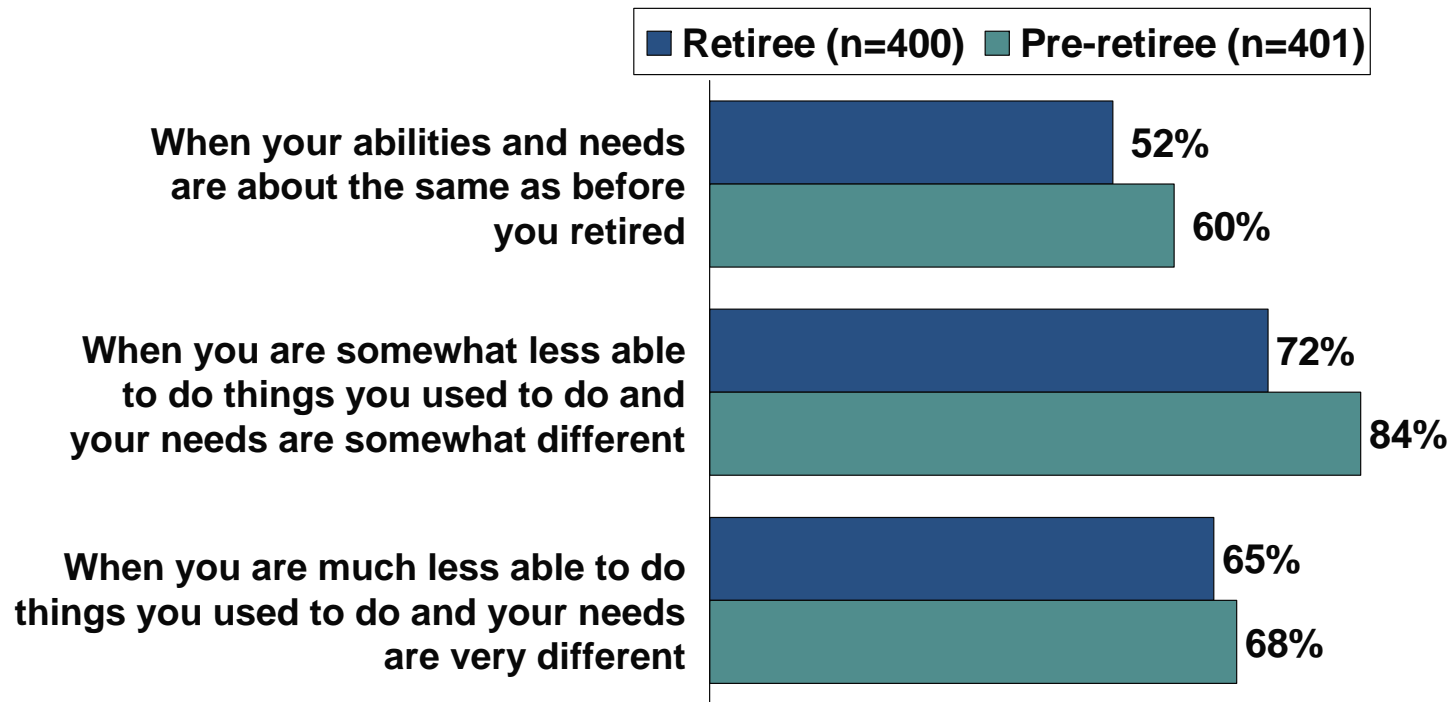
# Puzzles around longer work

- More than 7 in 10 people say they want to work in retirement
- About 4 in 10 people retire earlier than planned
  - Don't plan for premature retirement risk
- Higher age displaced workers take longer to get jobs
- Other research indicates that older applicants get fewer call backs
  - Age discrimination? Will this change as population ages?
- Future: unknown effect of longer work on retirement patterns



# 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

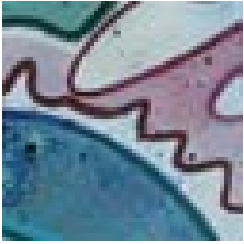


# Insurance plays only a small role in preparing for increased need

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

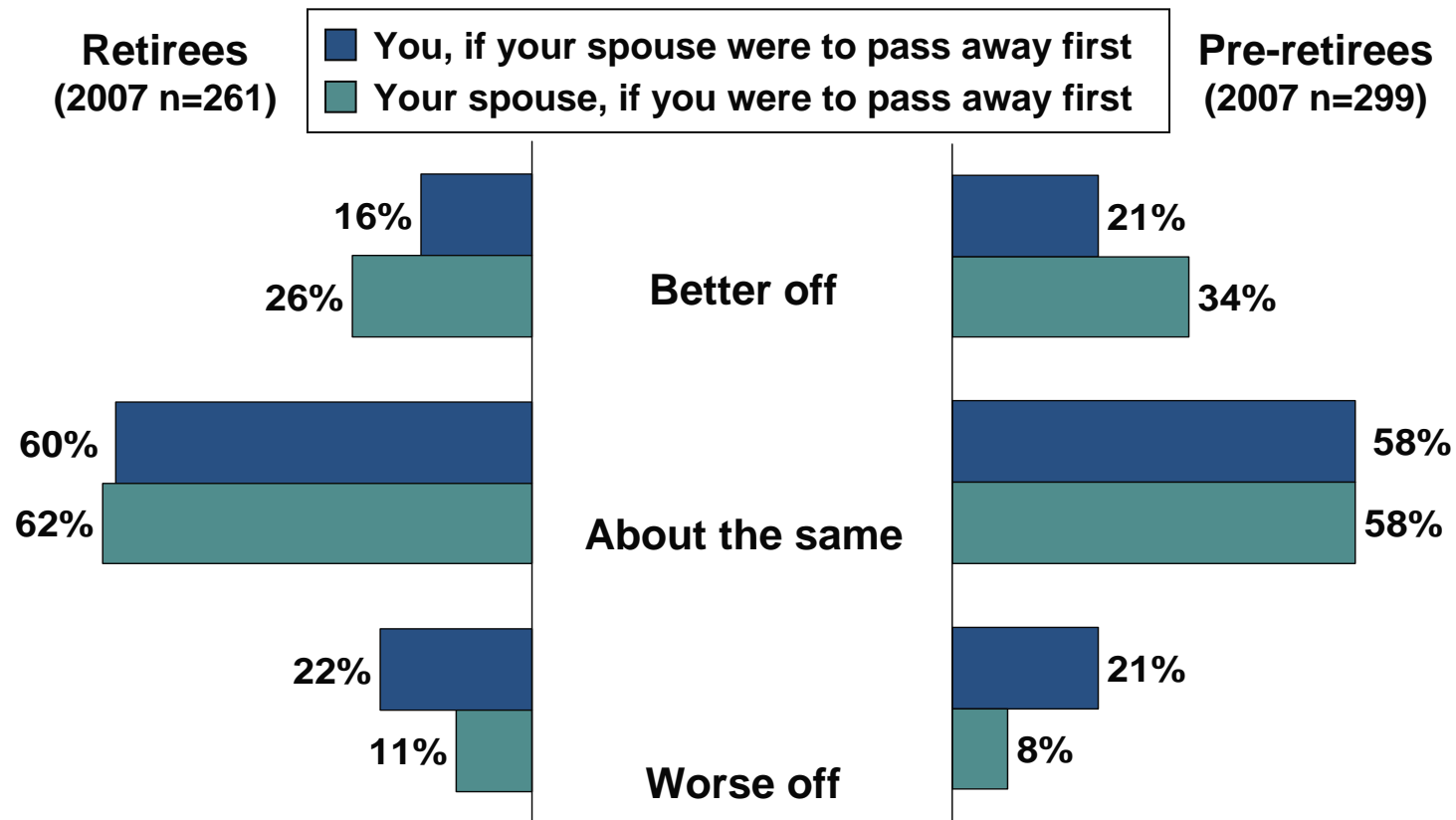
<b>Top Mentions (multiple responses accepted)</b>	<b>Retirees (%) (n=330)</b>	<b>Pre-retirees (%) (n=353)</b>
Save (more) money	16	37
Invest to make assets last	15	19
Buy long-term care insurance	11	8
Make home modifications	6	4
Cut back on spending	6	4
Stay healthy/improve health	4	4
Pay off debts	2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

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



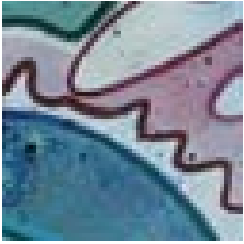
# Few believe they will suffer financially by their spouse's death

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 and pre-retirees)



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





## Death of spouse – major event?

- In many cases, respondents do not anticipate big change
- Many women spend last years in widowhood
  - 4 out of 10 have nothing but Social Security
  - Decline in economic status at widowhood
  - Needs to be planned for



## More Research: Planning Software and the Post-Retirement Period

- SOA, LIMRA, INFRE jointly did study to identify how software handles post-retirement risks
- Found major gaps
- Found big variations in results/same scenarios were run
- Lack of quality control in some programs
- Some programs did not handle two-earner families, housing wealth correctly

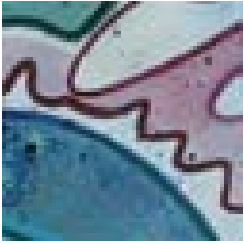
Bottom line – tools were much better for accumulation period than for post-retirement; caution needed in selecting tools

Study to be repeated in 2008



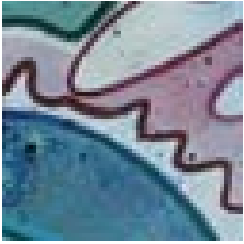
## Focus groups: Recent retirees with good 401(k) balances

- Goal – understand how people make decisions after retirement
- Concerned that people say they want income but rarely choose it
- Findings –
  - Short term focus
  - Intuition often guide with little analysis
  - Big gaps in knowledge about risk products, investments
  - Changes in investment strategy if new advisor
- Phase II work scheduled for 2008 – survey sponsored by SOA, LIMRA and INFRE
- Full report on research list



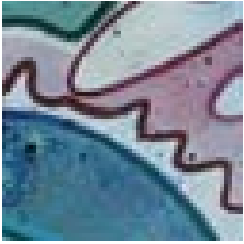
# Retirement 20/20

- SOA led multi-disciplinary project
- Focused on future of retirement system – looking for new solutions
- Special web-site includes
  - Headlines
  - Paper on self adjusting systems
- New paper calls coming



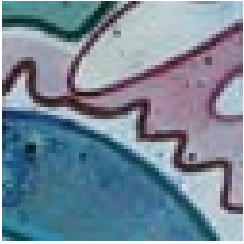
# Living to 100

- Third in series of paper calls from SOA
- Focused on research into high age mortality and implications of longer life
- International and multi-disciplinary in scope
- Conference – January, 2008



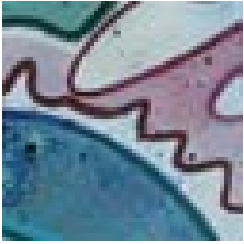
## In summary

- Continue to find major gaps in risk understanding
- Longer term risk management very difficult for individuals
- Widows and very old will continue to be vulnerable
- Should be good opportunities for expansion of financial products
- Best retirement programs are those that work without individual action
- Education is desirable, but there are limits on what it can accomplish



# Issues for actuaries

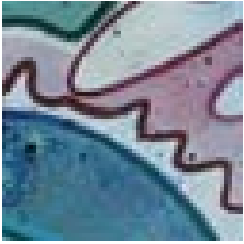
- Given that
  - Periods of retirement have lengthened
  - Many people are working at older ages
  - People say they want to work longer
  - Older people seem to have more trouble finding jobs and/or may become physically incapable of obtaining suitable employment
  - Shortages issues – open question
  - Major gaps in focus on financial products
- How should risk-protection systems and products change to meet the evolving work and retirement landscape?



# Dreams for the future

- General awareness of variability and length of life and focus on longer term planning
- General understanding of retirement timing and implications
- Strong safety net
- Default options (with the chance to make other choices) in DC plans that include some timed purchase of life income
- Risk protection products that offer a portfolio of options to protect from different risks
  - Potential to use these with retirement resources directly in employer sponsored plans
  - Opportunities to purchase on group basis
- Software that handles post-retirement period well and without too much difficulty





# Appendix

- Resources
- More actuarial projects



# Academy Social Insurance Committee

- Focuses on policy issues
- Communicates with policymakers and other publics
  - Issue briefs
  - Special reports
  - Do not take positions
- Practice Councils deal with other aging related issues



# Learnings from behavioral finance

- Motivating individuals to plan for retirement is extremely difficult
  - The payoff for behavioral change is quite uncertain
  - Workers do not easily buy the idea of payoffs in the distant future
  - The promise of pleasure tomorrow means pain today
  - The wrong decision yields instant gains
  - There is no immediate tangible reward for saving now
  - The savings decision can be postponed without immediate penalty
  - There are no functional deadlines for action.

Source: Gary Selnow, “Motivating Retirement Planning,” from Mitchell and Utkus, *Pension Design and Structure*, Oxford University Press, 2004



# SOA Committee on Post-Retirement Needs and Risks

- Focus is on understanding and mechanisms to assist in distribution phase
- Work
  - Risk Chart
  - Risks and Process of Retirement Surveys
    - 2001, 2003, 2005 and 2007
    - Select issues for special focus
  - Retirement Plan Preferences (with Academy)
  - Misperceptions Papers
  - Focus Groups on Financial Management in Retirement
  - Research on retirement planning software



# Methodology: Risks and Process of Retirement Survey

- Sponsored by the Society of Actuaries
- 801 19-minute telephone interviews conducted in June and July 2007
- Interviewed Americans ages 45 to 80
  - Considered retirees and pre-retirees separately
- Margin of error at 95% confidence level is  $\pm 5$  percentage points for all retirees and all pre-retirees
- Conducted by Mathew Greenwald & Associates and Employee Benefit Research Institute (EBRI)



# Resources – research and information

- List provided of Society of Actuaries key studies from actuarial profession
  - Risks study series, 2001, 2003, 2005, 2007
  - Retirement 20/20
  - Several other studies
- Actuarial Foundation Consumer Education active in literacy for retirement
  - Several Projects with WISER
  - DOL Project – Take the Mystery Out of Retirement Planning
  - Supported AARP tip sheets
- For information on policy issues
  - American Academy of Actuaries Issue Briefs



# **ANNA RAPPAPORT CONSULTING**

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