



2007 ASNY Annual Meeting

Actuaries Respond to an Aging Society

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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

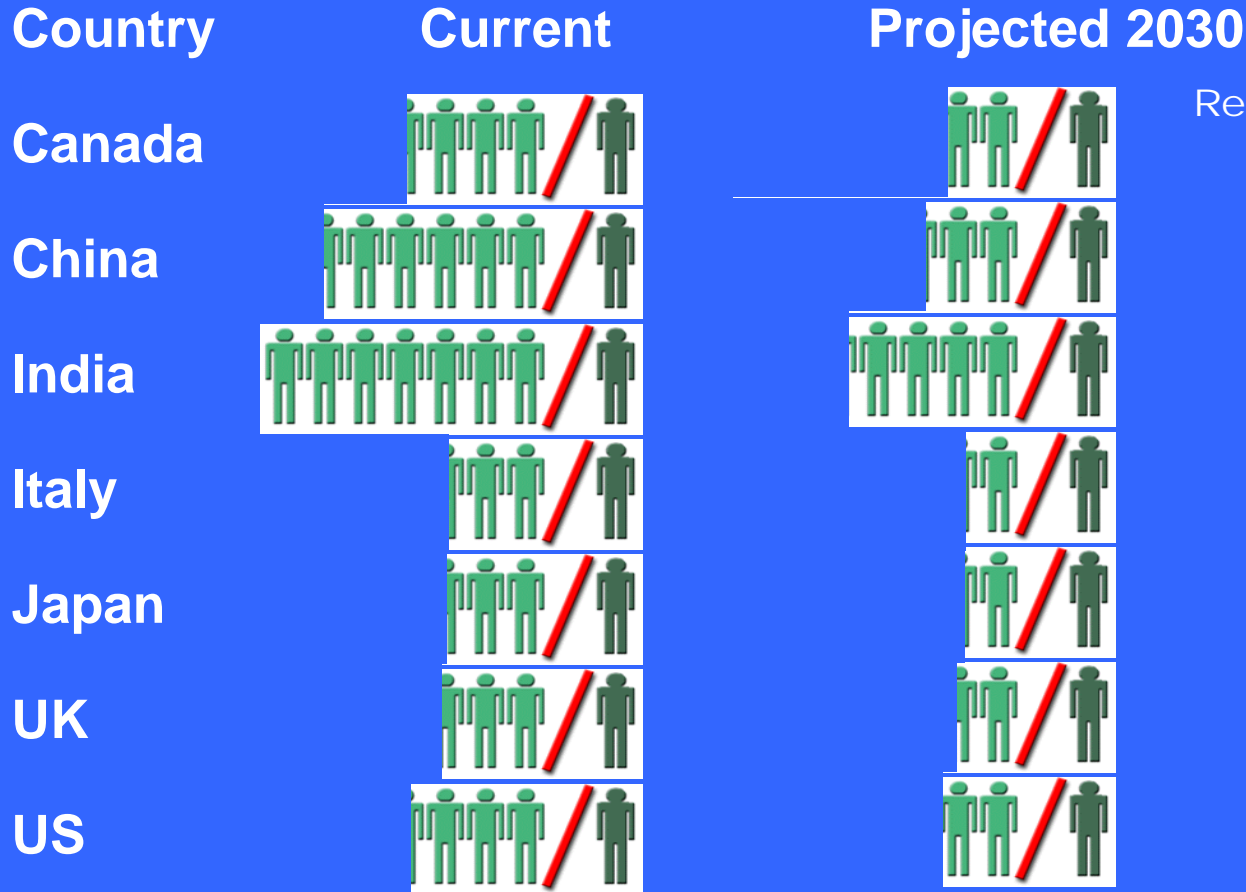


Trends and Realities

Demographics—aging populations



Changing ratio of active workers to retirees



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



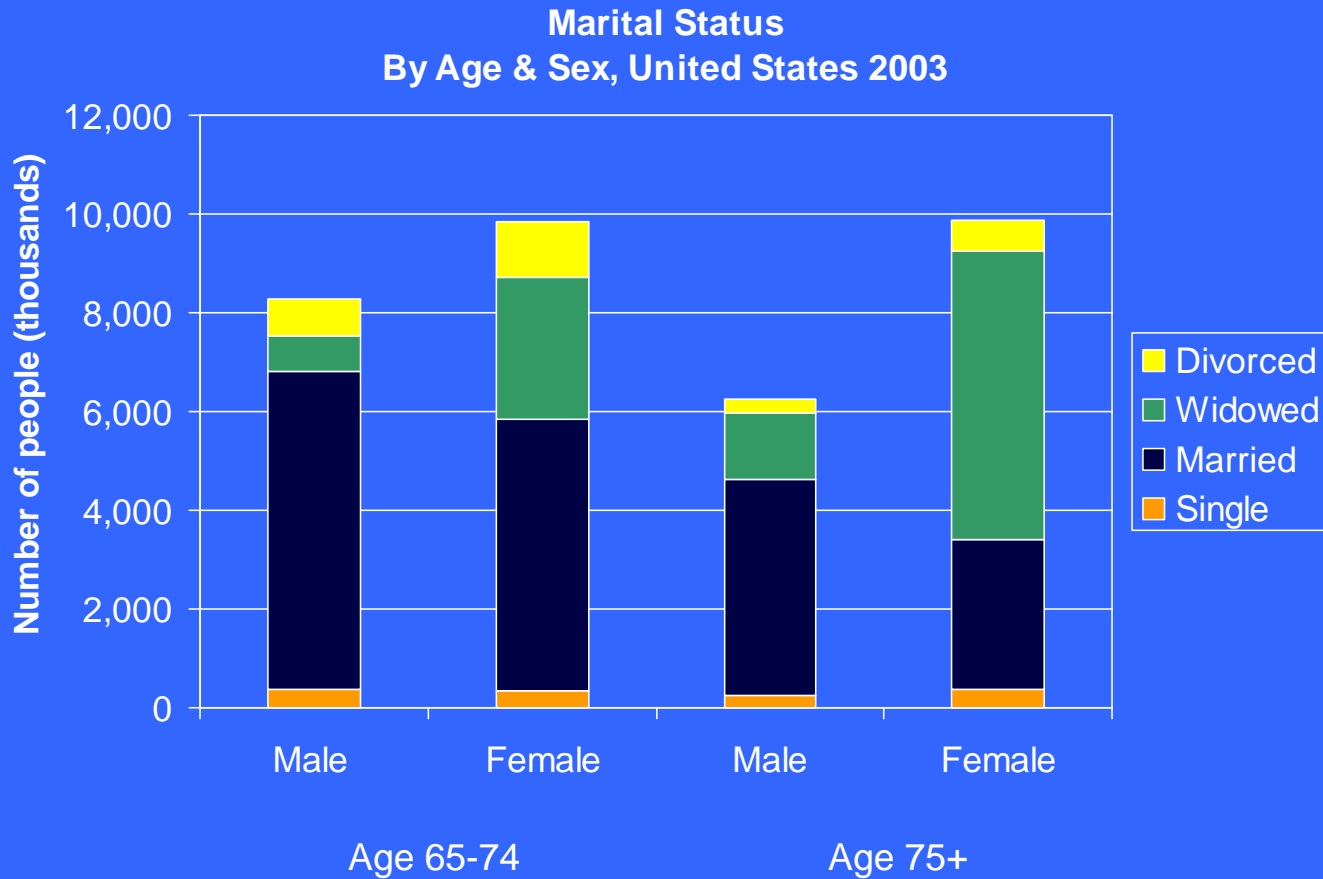
Trends and Realities Women vs. Men



- 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

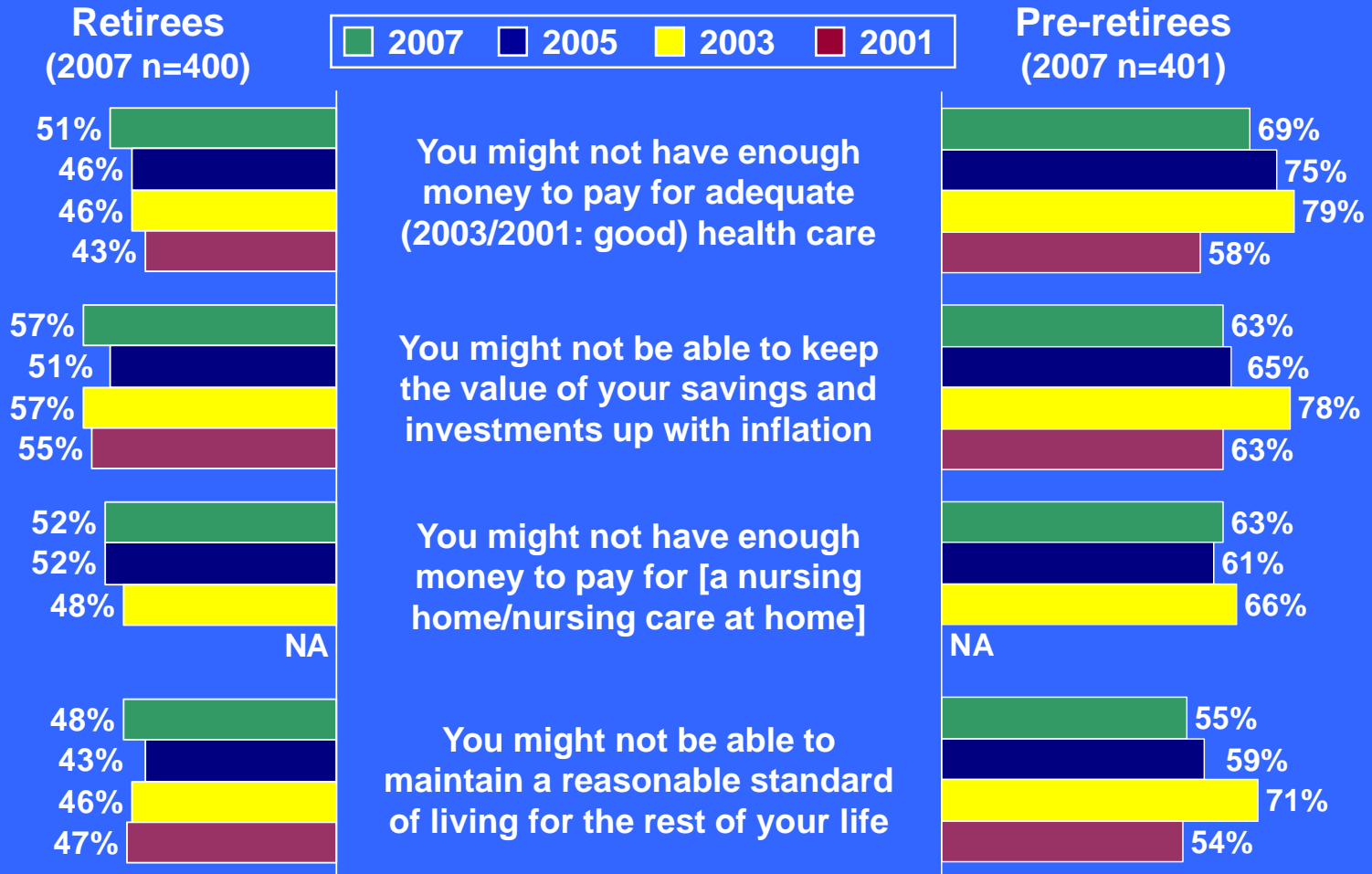
Examples of other risks

- 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?

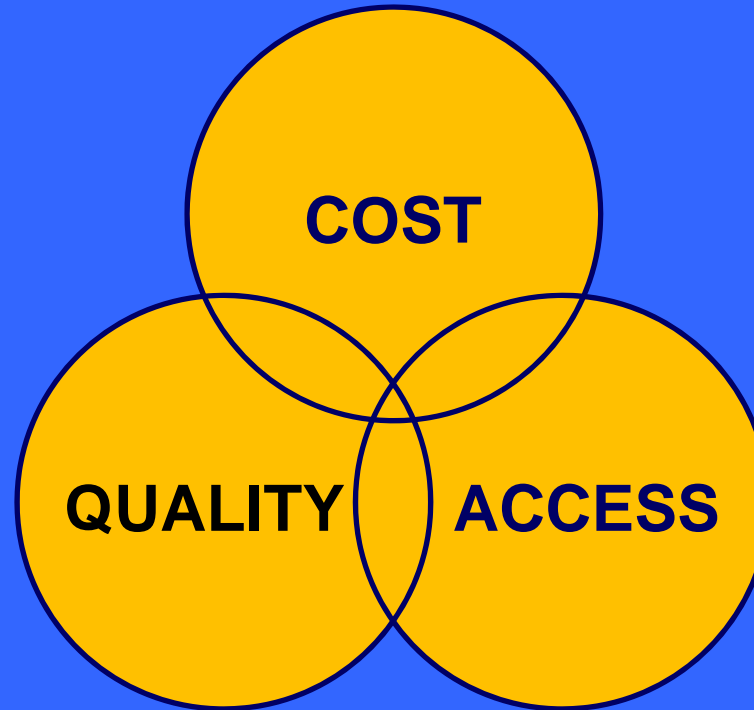


- Little longer term planning
- Gaps and misperceptions in what people know
- Behaviors often lead to poorer health
- Don't recognize that long-term care risk applies to them
- Much more confidence in future retirement security than assets to back it up
- Underestimate importance of Social Security,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

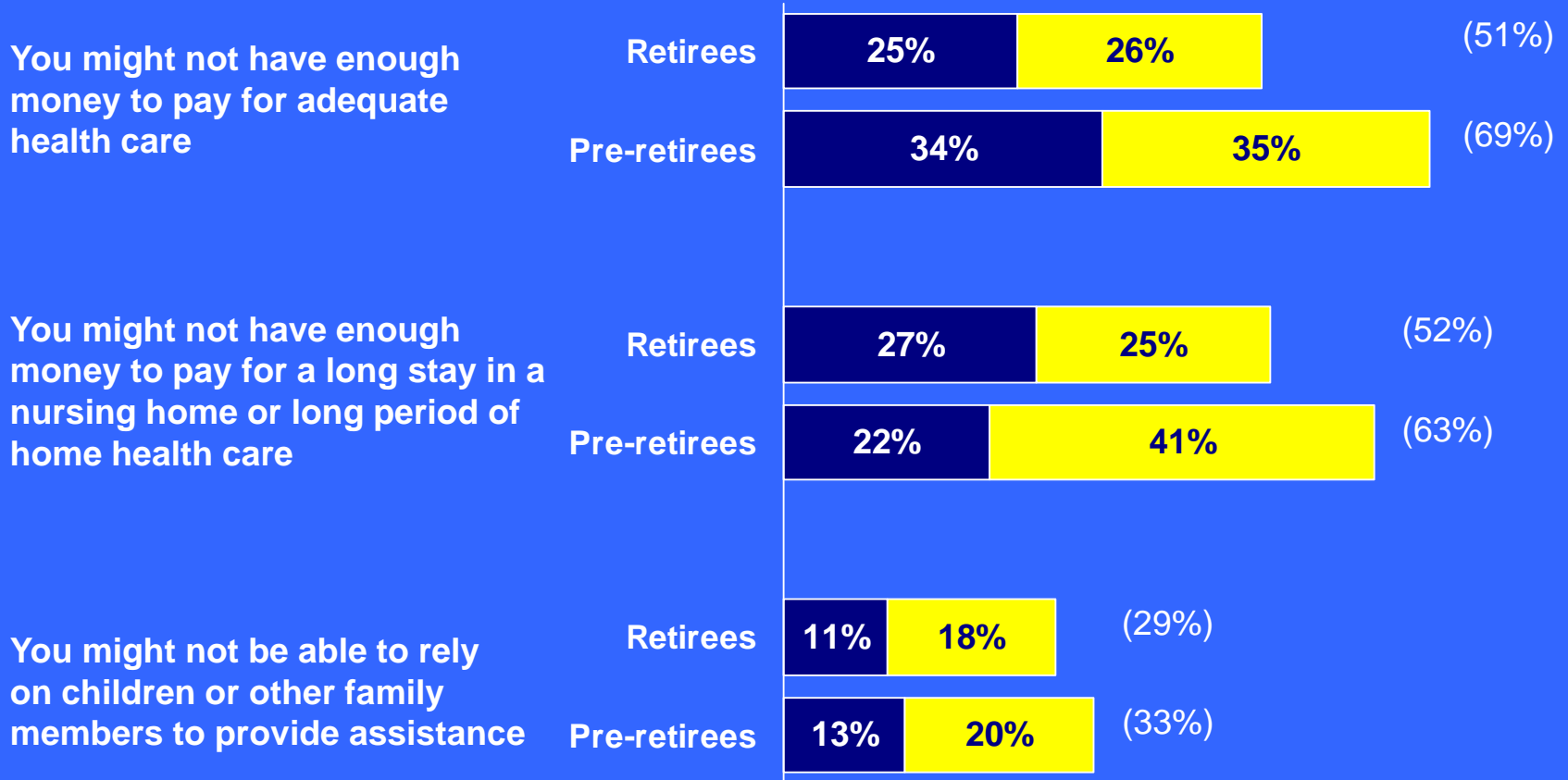


Health and long-term care risks are most likely to worry pre-retirees



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

Very concerned Somewhat concerned



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

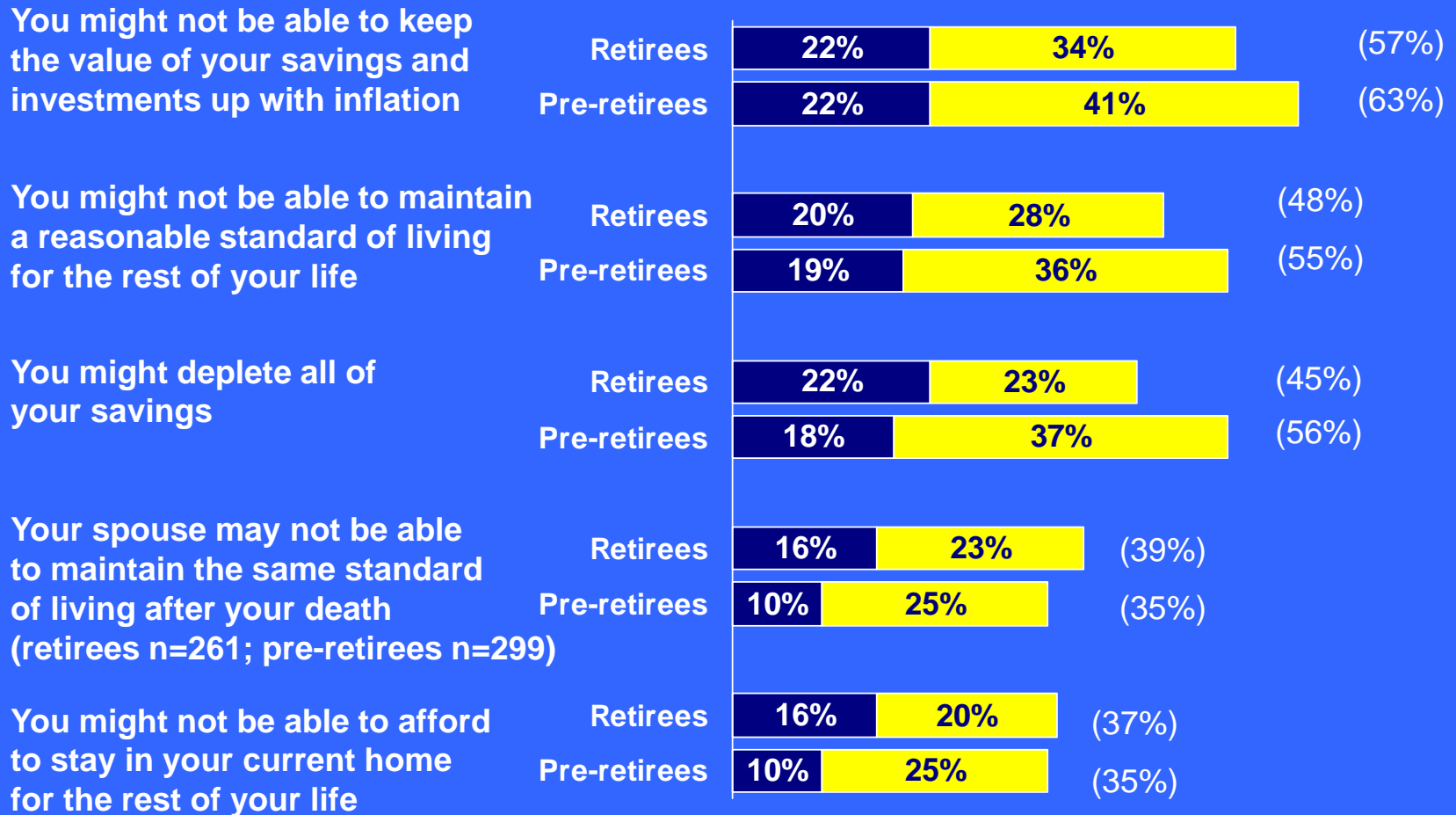


Inflation continues to be a top concern of retirees



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



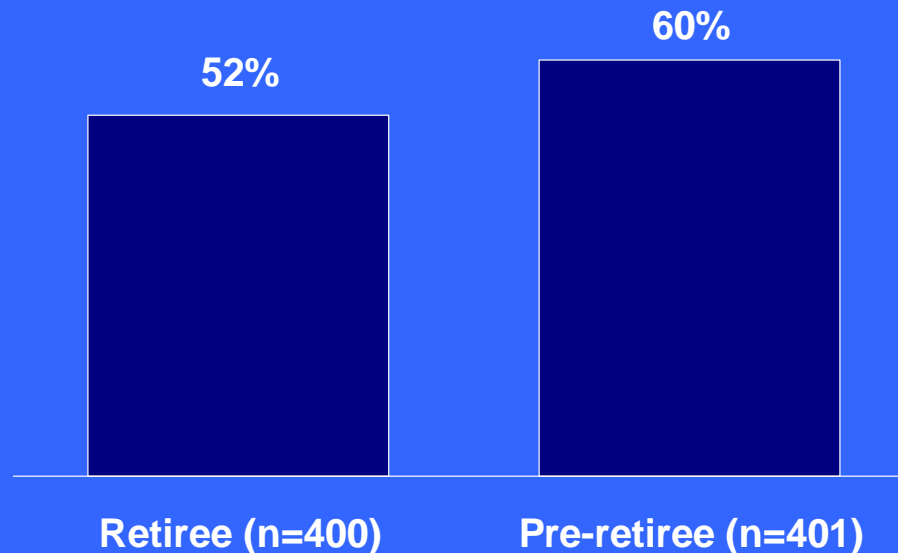
- Those who expect to work are unlikely to do so after age 75
- Couple issues
 - Timing of retirement
 - Changes at death of spouse
- Other research shows changes in activities, time use
 - Papers will be available in monograph



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?

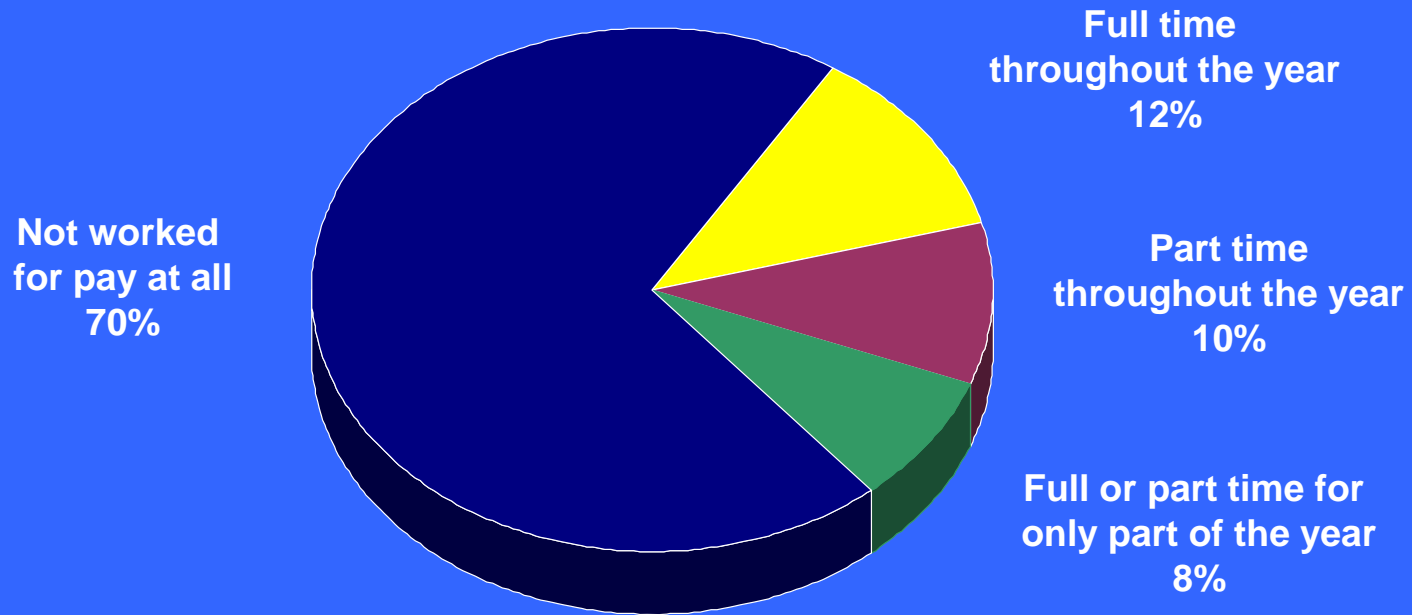
Age category	Retirees (%) (n=400)	Pre-retirees (%) (n=401)
Under age 55	31	1
55 to 61	30	16
62 to 64	16	12
65 to 69	13	27
70 or older	4	6
Will not retire	1	1
Doesn't apply	3	32
Don't know	2	6



Phased retirement already exists informally



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



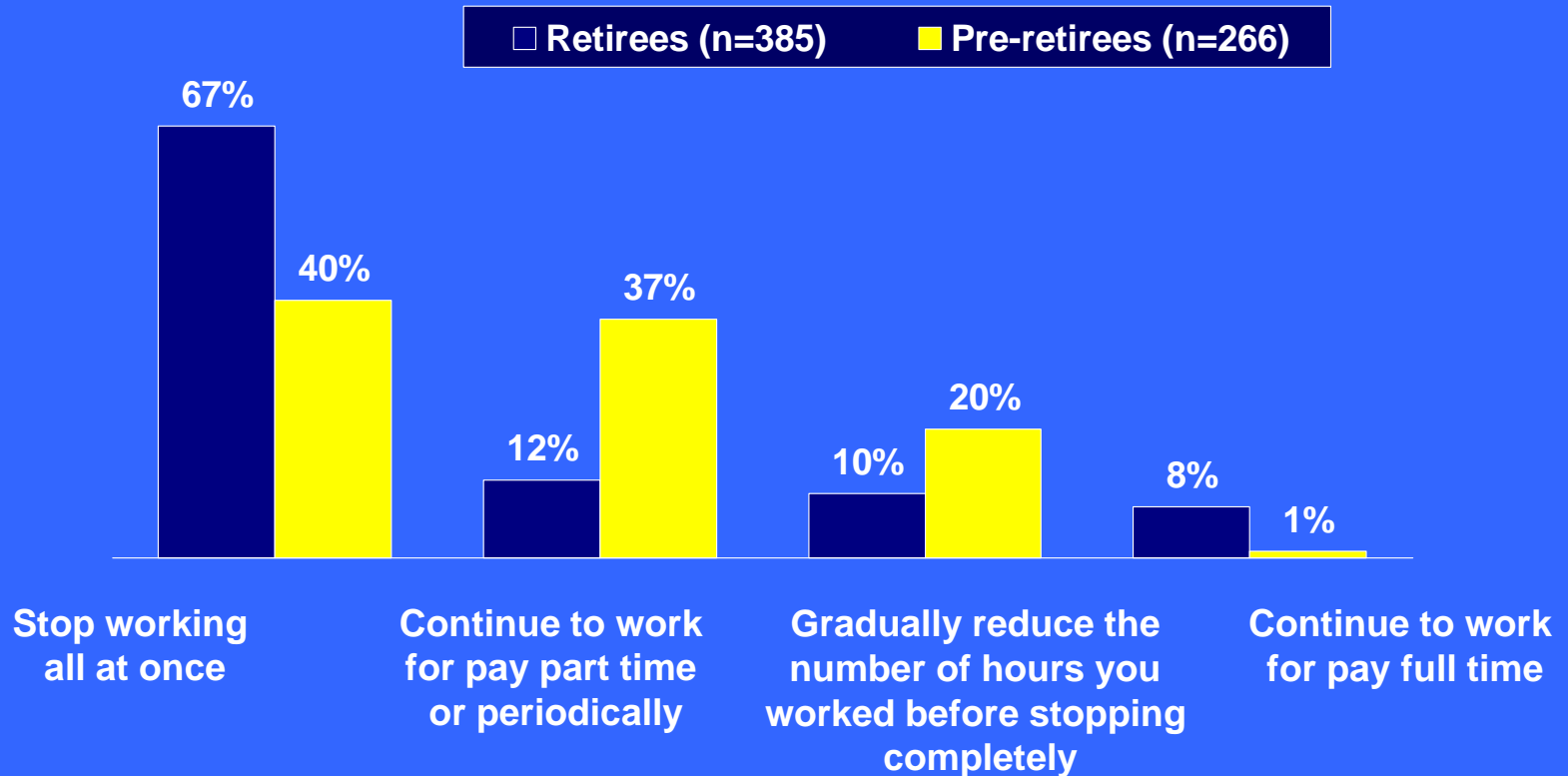
Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



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)



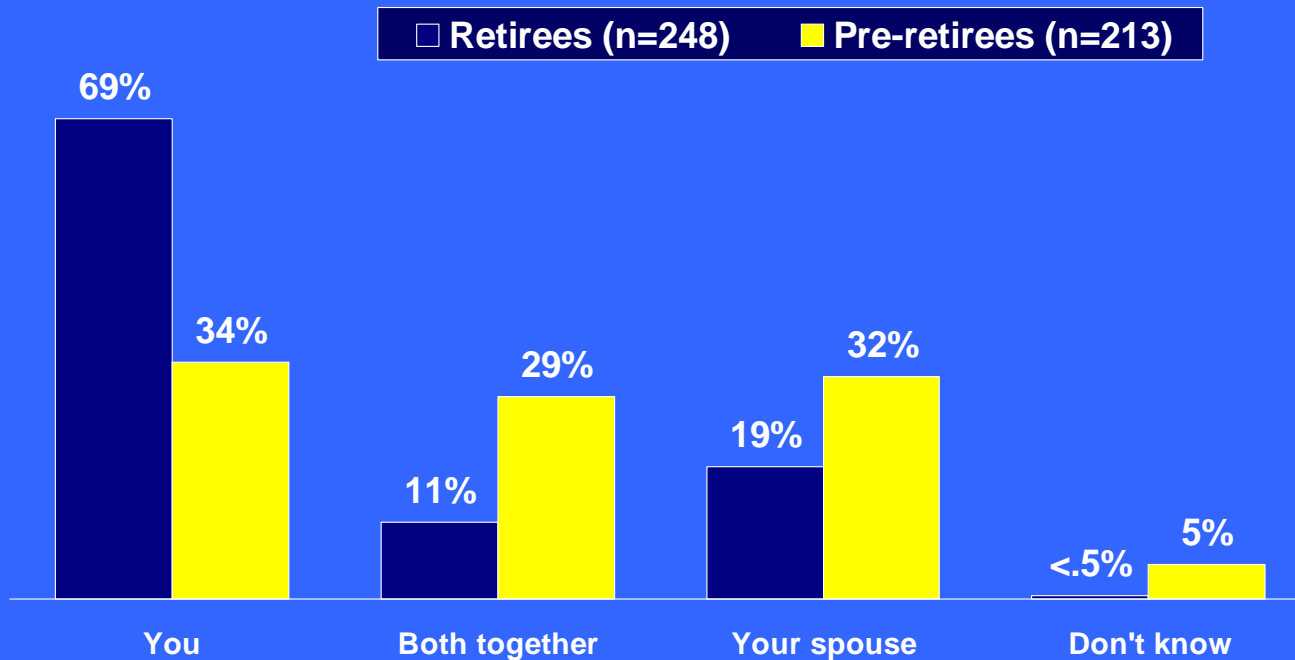
Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



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



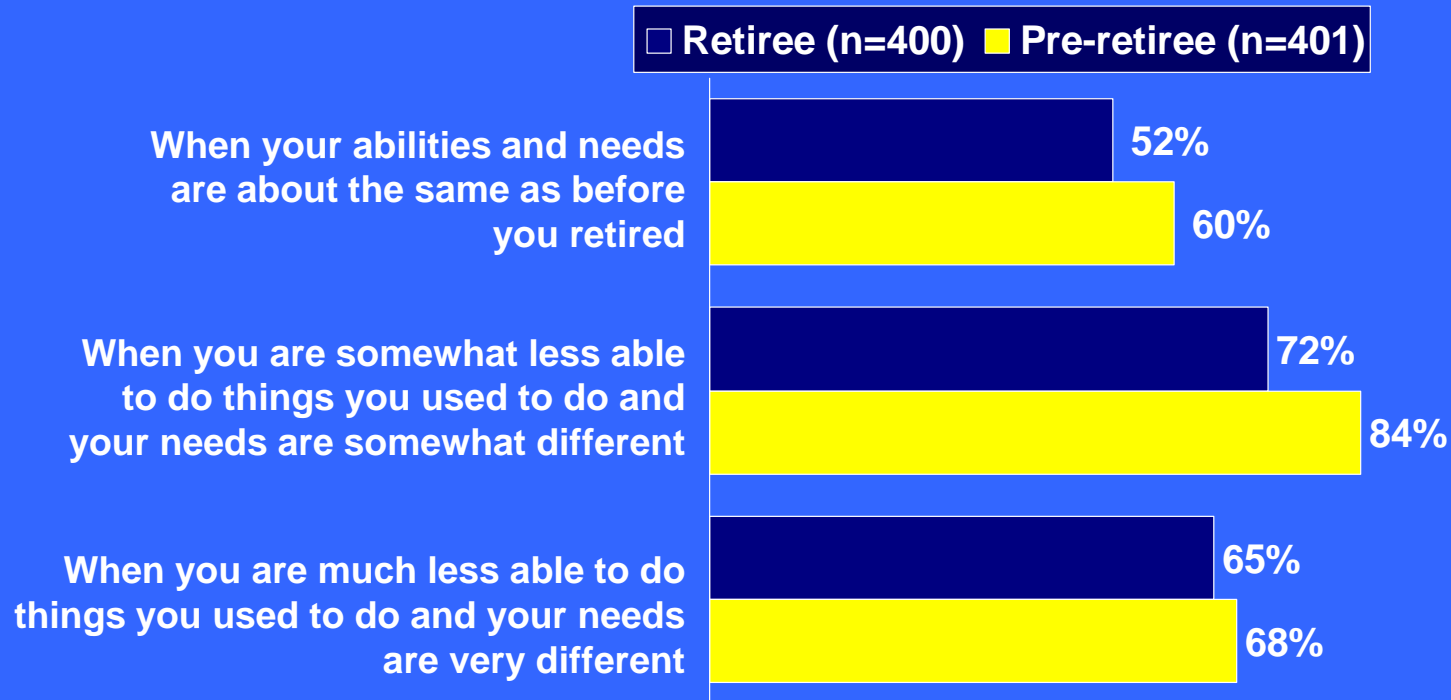
- More than 7 in 10 people say they want to work in retirement
- About 4 in 10 people retire earlier than planned
 - Don't plan for premature retirement risk
- Higher age displaced workers take longer to get jobs
- Other research indicates that older applicants get fewer call backs
 - Age discrimination? 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)

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

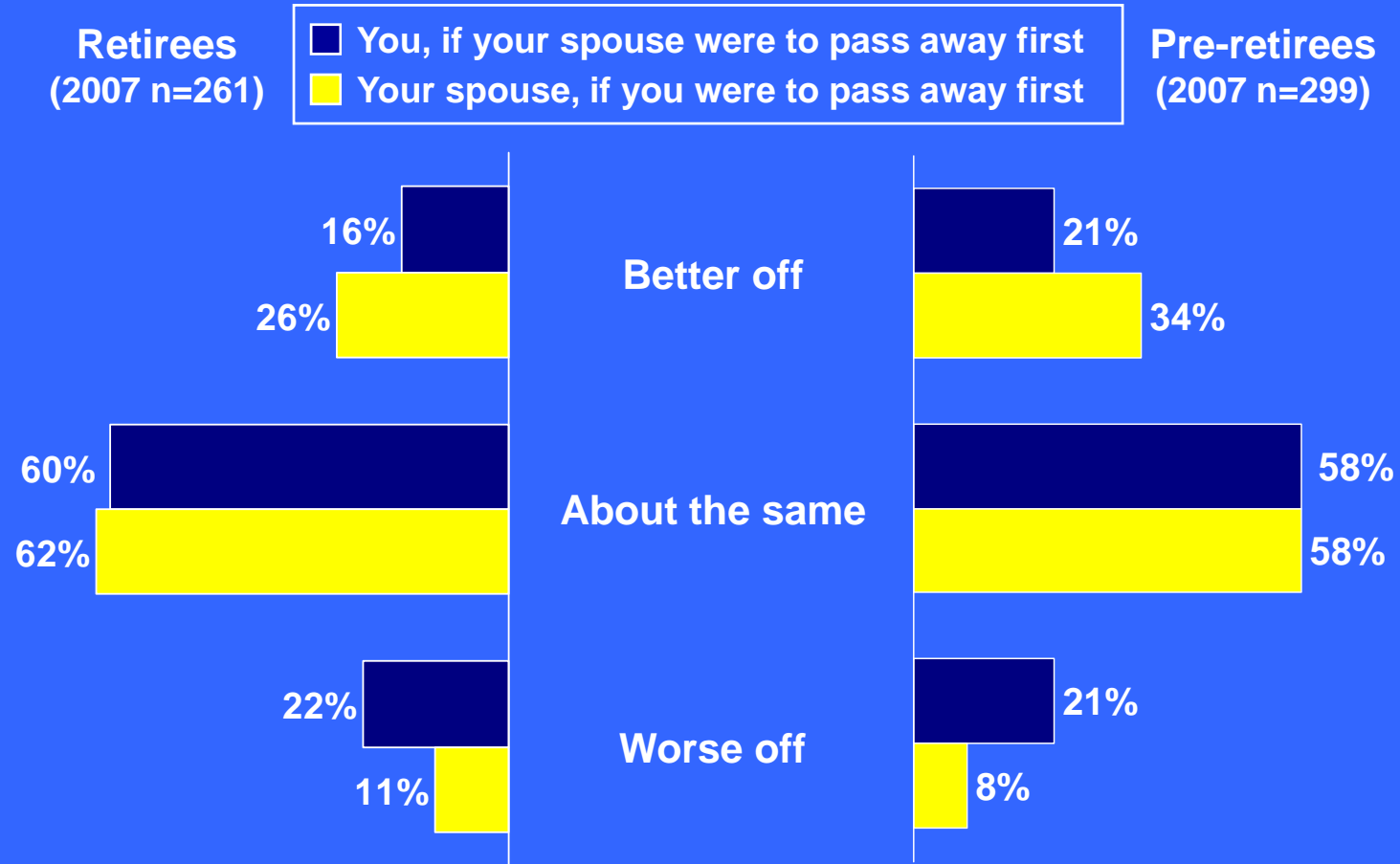
Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



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



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



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



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 ± 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