

ANNA RAPPAPORT CONSULTING
STRATEGIES FOR A SECURE RETIREMENTSM



**Insights into Retirement In the Age of
Personal Responsibility**

Presentation by Anna Rappaport
IABA – August 2013



Agenda

- Context: The age of personal responsibility
- Overview of research
- Research results by issue
 - Post Retirement Risk Concerns
 - How and When We Retire
 - Work as Part of Retirement
 - Planning for Retirement
 - What Changes during Retirement



Context: Background

- Personal responsibility for and complexity of retirement security increasing
- Changing US retirement systems – more employer sponsored savings (DC) and fewer traditional pension plans (DB); less employer sponsored retiree health; many DB plans frozen; de-risking of current DB plans
- Social Security and Medicare subject to economic and political issues – may decrease benefits or increase taxation
- Economic instability and turmoil
- Uncertainty surrounding taxation policies
- Definition of “retirement” changing
- As population ages, needs of the very old become more important to the nation and economic stability of government



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: Americans Nearing Retirement

Percentages of Augmented Wealth by Quintile

Wealth Quintile and Est. Wealth	First \$93,500	Second \$294,000	Third \$543,000	Fourth \$904,000	Fifth \$2,000,000
Value of Social Security	82%	58%	41%	28%	14%
Net Housing Wealth	8	18	22	23	23
Value of DB	3	9	14	19	15
Retirement Assets	3	8	11	15	18
Other Assets	4	8	11	15	11

Source: Figure 16, Investment Company Institute, The Success of the U.S. Retirement System, 2012

Note: Calculations exclude the top and bottom 1% of the population, quintiles established based on 2006. The value of DB and Social Security income streams is included. Health and Retirement Study data, analyzed by Gustman, Steinmeier, and Tabatai, underlies this analysis. Includes households with at least one member born between 1948 and 1953

Note: Percentages may not add to 100 due to rounding.



Context: Median Total Income and Reliance on Social Security by Age

	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 in thousands in U.S. dollars

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

Important SOA Research about Retirement



Context: Poverty and Older Americans

US Population Segment	Poverty Rates -- 2011
65 and older	9%
18-64	14%
Younger than 18	22%

- Age 65+ poverty – down from 30% in 1967
 - Social Security is vital to most retirees
 - Future benefits may decline and taxation increase



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 between US and Canadian results
 - Believe that fundamental financial literacy and planning issues are similar in many countries



Overview of Research

SOA Decision Briefs for Individuals

- Provides guidance for individuals
- Eleven issue briefs written in everyday language
 - Big Question: When Should I Retire?
 - When Retirement Comes Too Soon
 - Women Take the Wheel: Destination Retirement
 - Deciding When to Claim Social Security
 - Designing a Monthly Paycheck for Retirement
 - Treating Asset Allocation Like a Roadmap
 - Securing Health Insurance for the Retirement Journey
 - Taking the Long-Term Care Journey
 - Where to Live in Retirement
 - Estate Planning: Preparing for End of Life
 - Finding Trustworthy Financial Advice for Retirement and Avoiding Pitfalls



Overview of Research

Other Areas of SOA Research Focus

- Segmenting the Middle Market: Parts I and II
 - Updated to 2010 data
 - Insights from Financial Planners
- Running Out of Money in Retirement
- MetLife Family Structures
- Investing assets in retirement
 - Focus groups
 - On-line surveys in 2008, 2009, 2011
- Monographs and paper calls
- Misperceptions papers
- Projects nearing completion
 - Focus groups on Retirement Decisions
 - Paper on Retirement Income Solutions



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



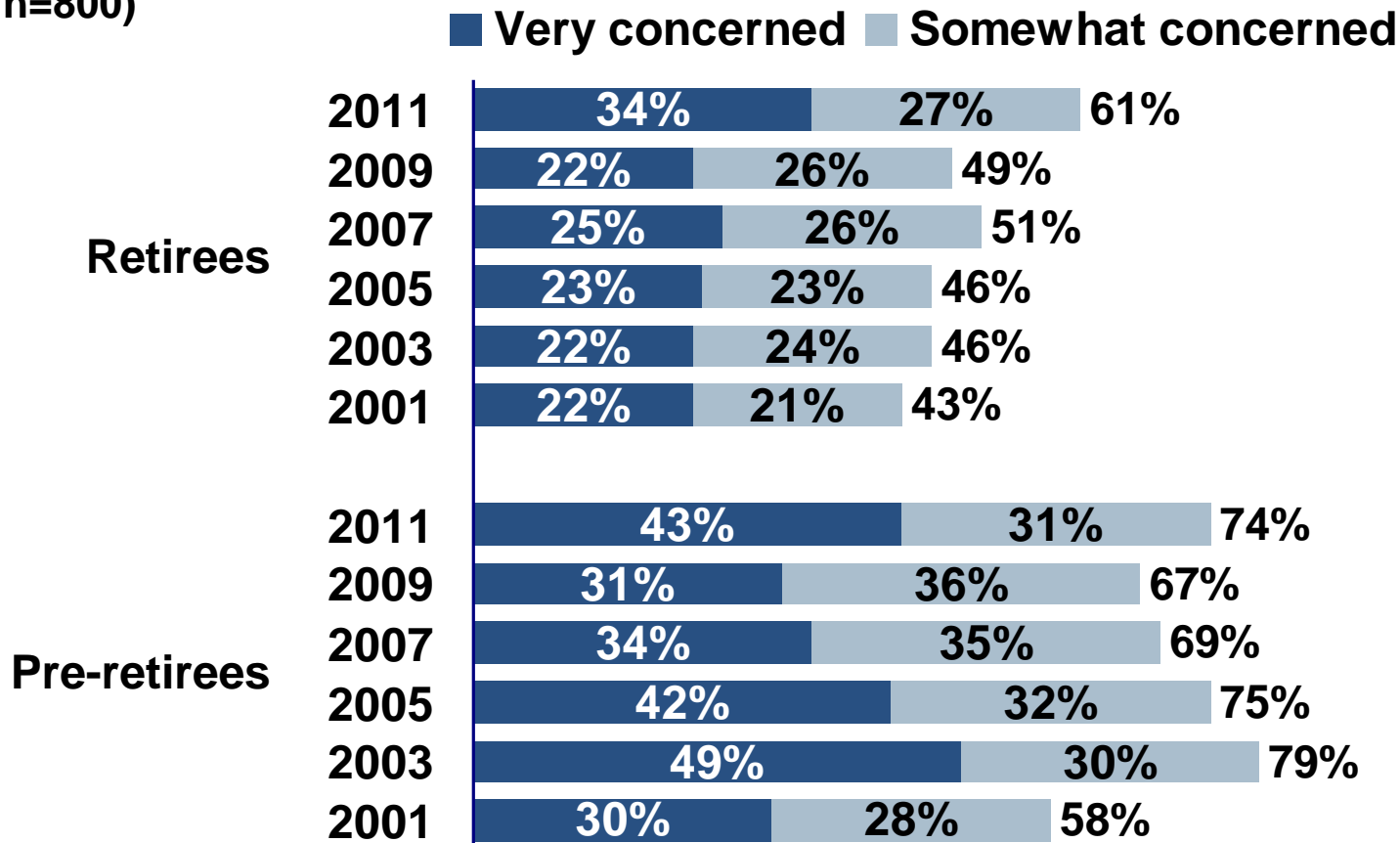
SOA Risk Survey Top Concerns: % Very or Somewhat Concerned

RETIREES Year of Survey	Health Care Risk	Long-Term Care Risk	Inflation Risk
2011	61%	60%	69%
2009	49%	46%	58%
2007	51%	52%	57%
2005	46%	52%	51%
2003	46%	48%	57%
2001	43%	NA	55%
PRE- RETIREES			
2011	74%	66%	77%
2009	67%	55%	71%
2007	69%	63%	63%
2005	75%	61%	65%
2003	79%	66%	78%
2001	58%	NA	63%

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)

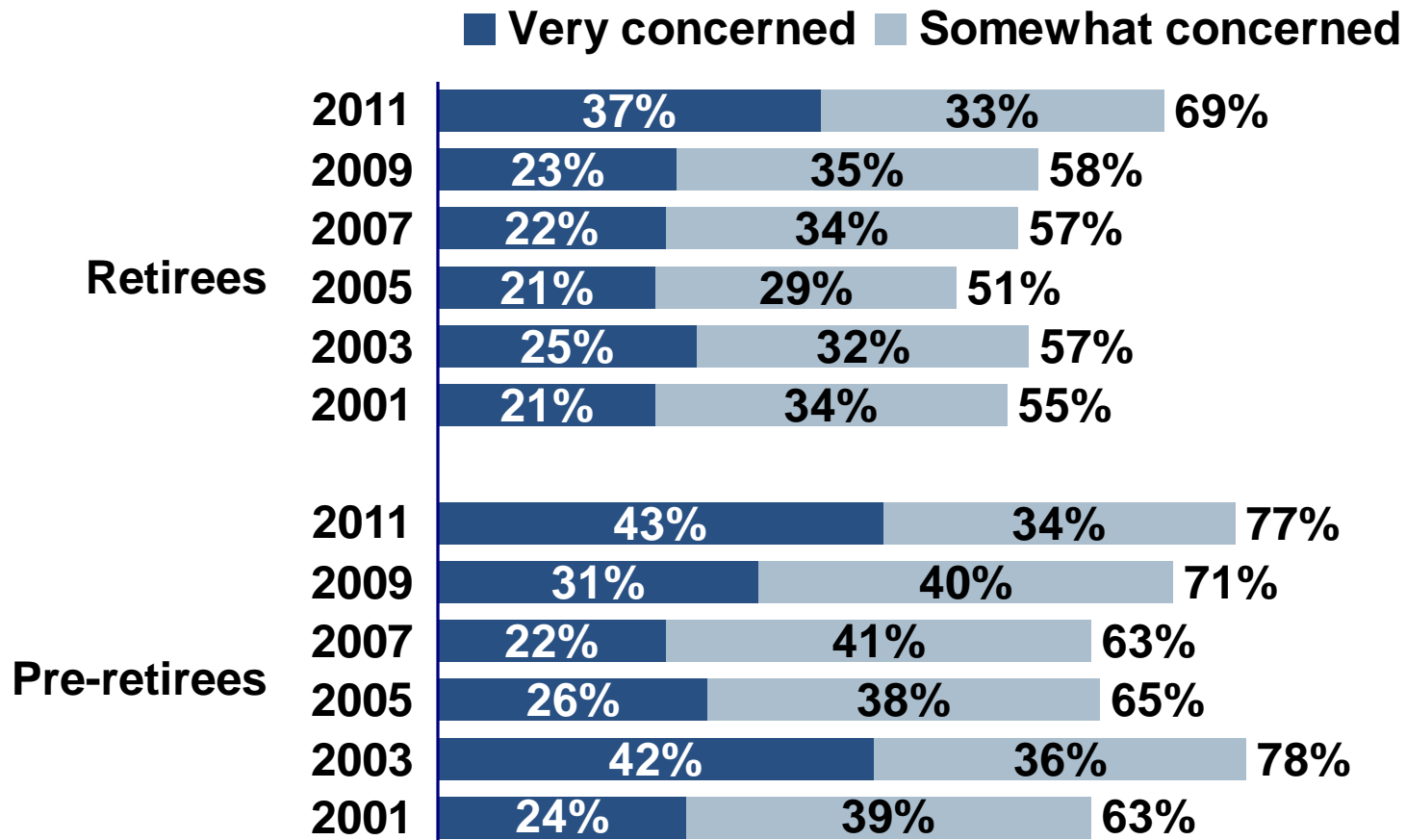


Source: Society of Actuaries, 2001-2011 Risks and Process of Retirement Surveys

Post Retirement Risk Concerns

Retiree concern about inflation risk is up in 2011

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



How and When We Retire

- Retirement ages gradually increasing
- Evolving thinking about the life cycle: third age – period of easing into retirement
- Gap between retiree action/pre-retiree expectation
- Many retire involuntarily
- Disability: key issue in thinking about this
- Big question: how will retirement patterns change



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)

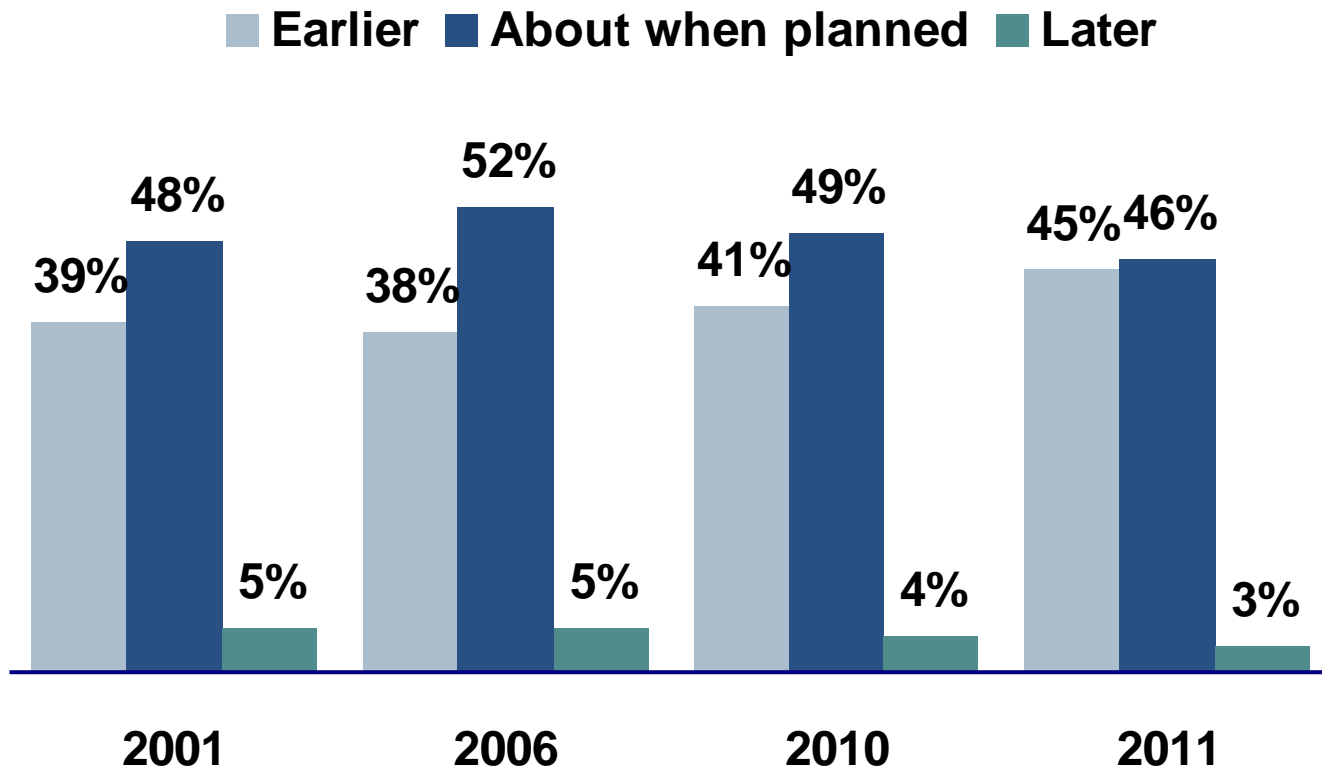
Age category	2009 Retirees (%)	2011 Retirees (%)	2009 Pre-retirees (%)	2011 Pre-retirees (%)
Under 55	28	31	1	1
55 to 61	33	30	24	21
62 to 64	20	21	16	16
65 to 67	12	12	35	38
68 or older	4	4	16	17
Don't know	2	2	8	7

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)



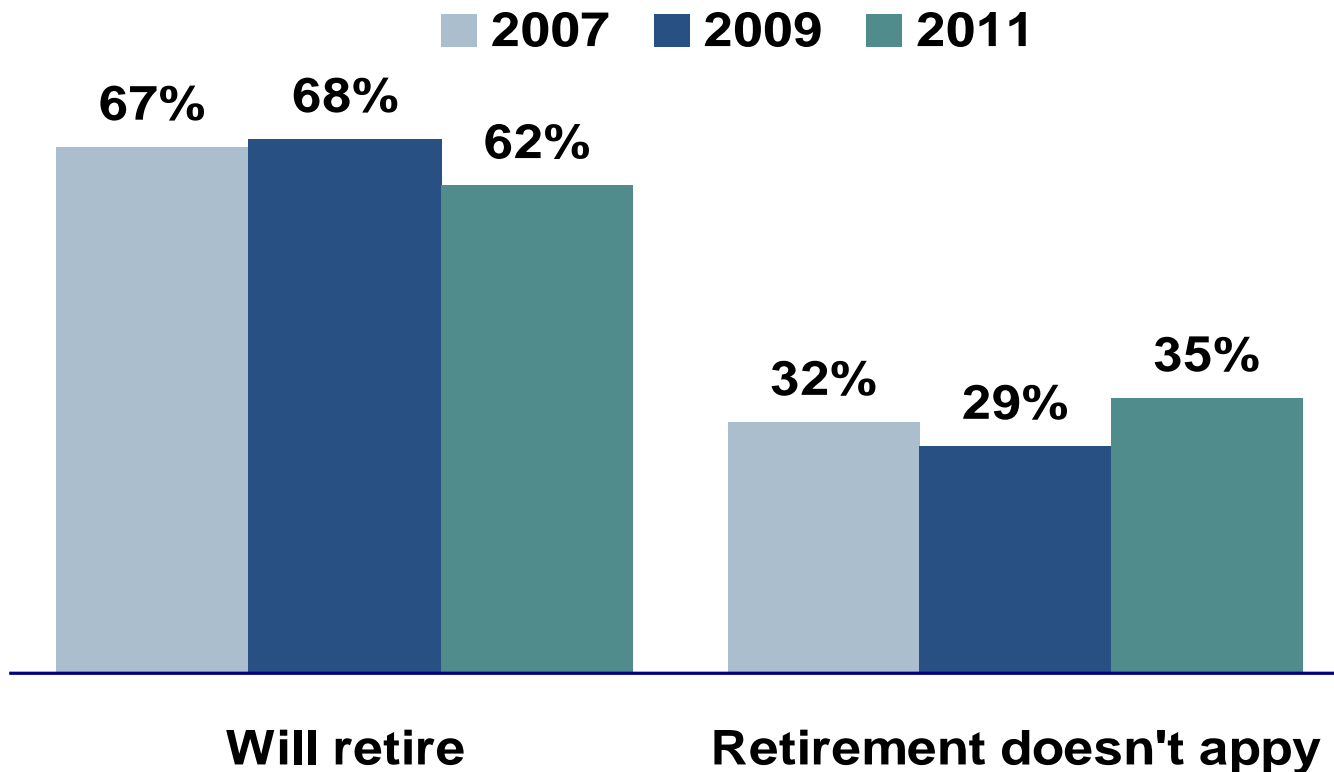
Source: EBRI/Greenwald, 2001-2011 Retirement Confidence Surveys

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)

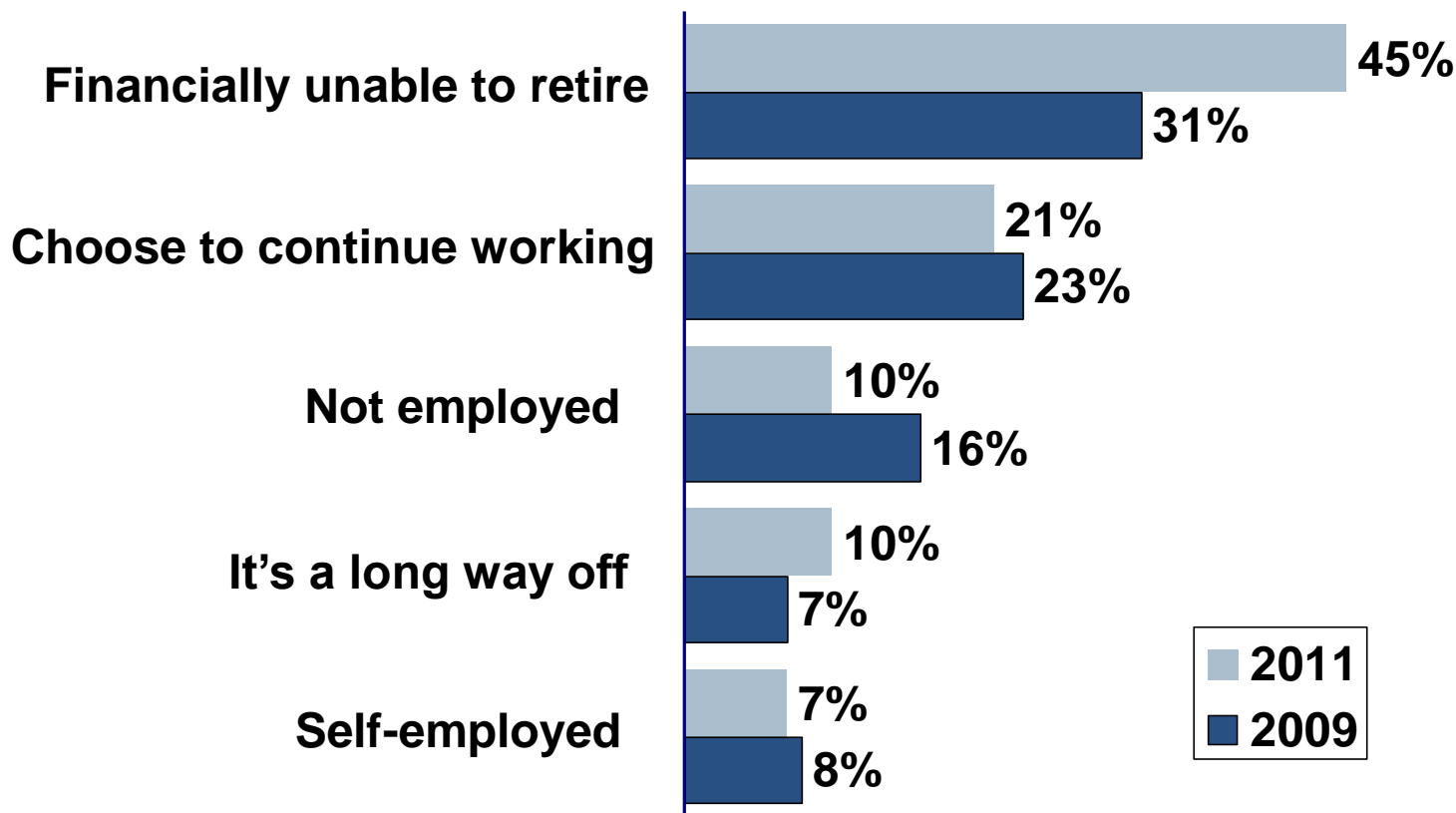


Source: Society of Actuaries, 2007-2011 Risks and Process of Retirement Surveys

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



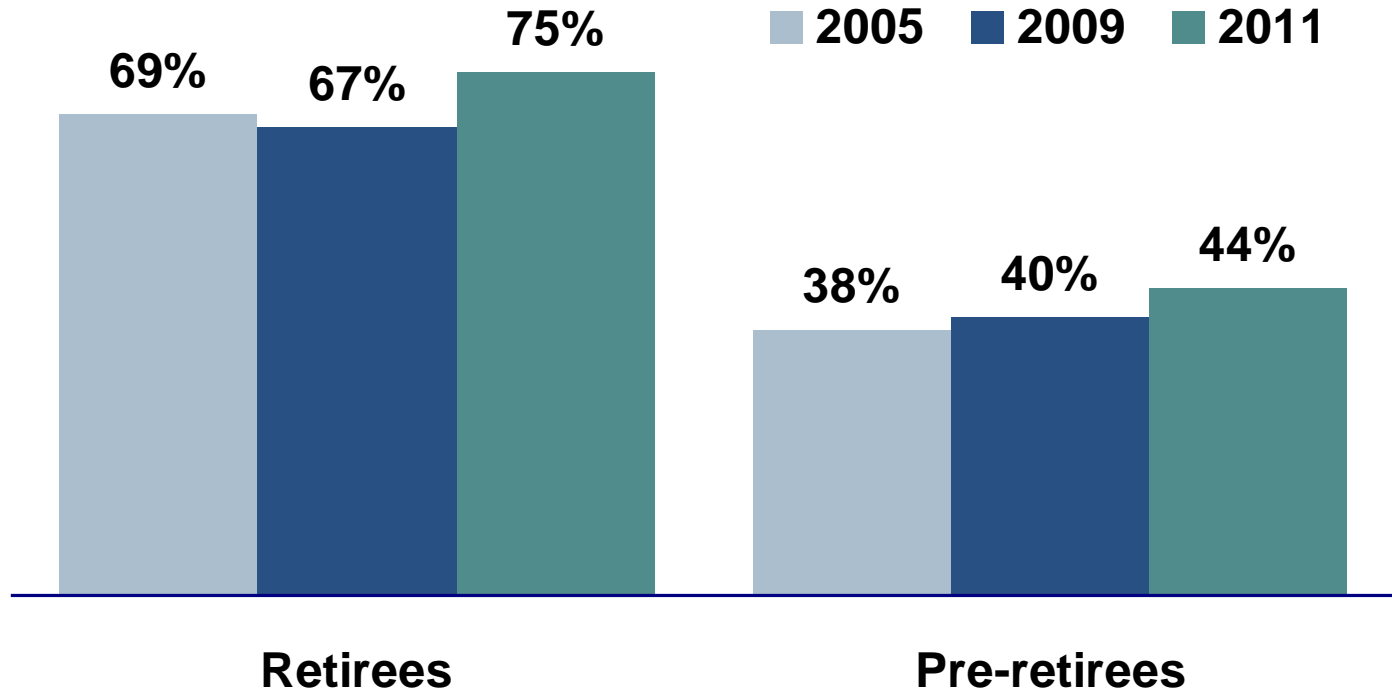
Work as Part of Retirement

- About 50% of retirees work in retirement or have bridge jobs
 - Often different roles or schedules
 - Virtually no formal phased retirement (private sector)

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)



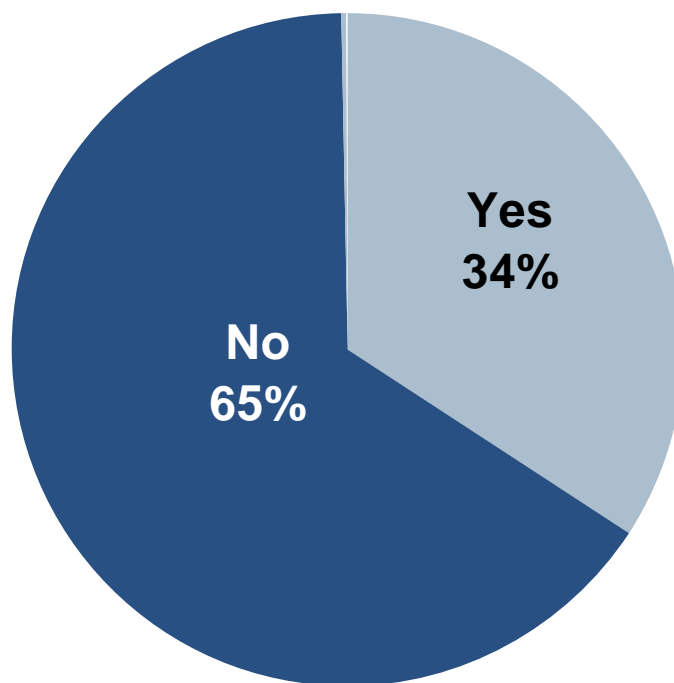
Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey



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



Planning for Retirement: A Topic of Growing Importance

- Planning horizon is concern
- Little focus on risk management products
- Housing, a significant portion of middle income assets, is excluded in retirement planning
- Gaps in understanding – death of spouse
- Gaps in understanding – impact of working longer
- Many people do not understand longevity
 - Particularly variability
 - Tend to underestimate longevity
- People who live longest will have problems



New research on planning: Preliminary Observations from Focus Groups on Retirement Decisions

- Decision to retire based more on career or life events rather than well thought out review or process
- Analysis of retirement financial adequacy is basic rather than careful consideration of risks and resources for income
- Interviewed men and women in separate groups – significant difference in concerns, expectations and attitudes were observed
- Women address issues differently than men
 - Caregiving of others primary consideration for retiring and spending in retirement – but do not expect caregiving for themselves will be provided
 - More concerned about retirement financial adequacy – but rely on others for financial advice



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



Planning for Retirement

Importance of Housing

Wealth of Middle Income Households Age 55 to 64

Analysis based on 2010 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 income)						
Married	5.7 million	\$82,000	\$277,000	\$181,000	\$96,000	65%
Single Female	2.7 million	\$32,000	\$41,000	\$34,000	\$7,000	83%
Single Male	1.8 million	\$44,000	\$76,000	\$63,000	\$13,000	83%
Middle Affluent Households (75% to 85% of households by income)						
Married	1.1 million	\$146,000	\$1,241,000	\$671,000	\$570,000	54%
Single Female	0.5 million	\$64,000	\$185,000	\$117,000	\$68,000	63%
Single Male	0.4 million	\$85,000	\$339,000	\$214,000	\$125,000	63%

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

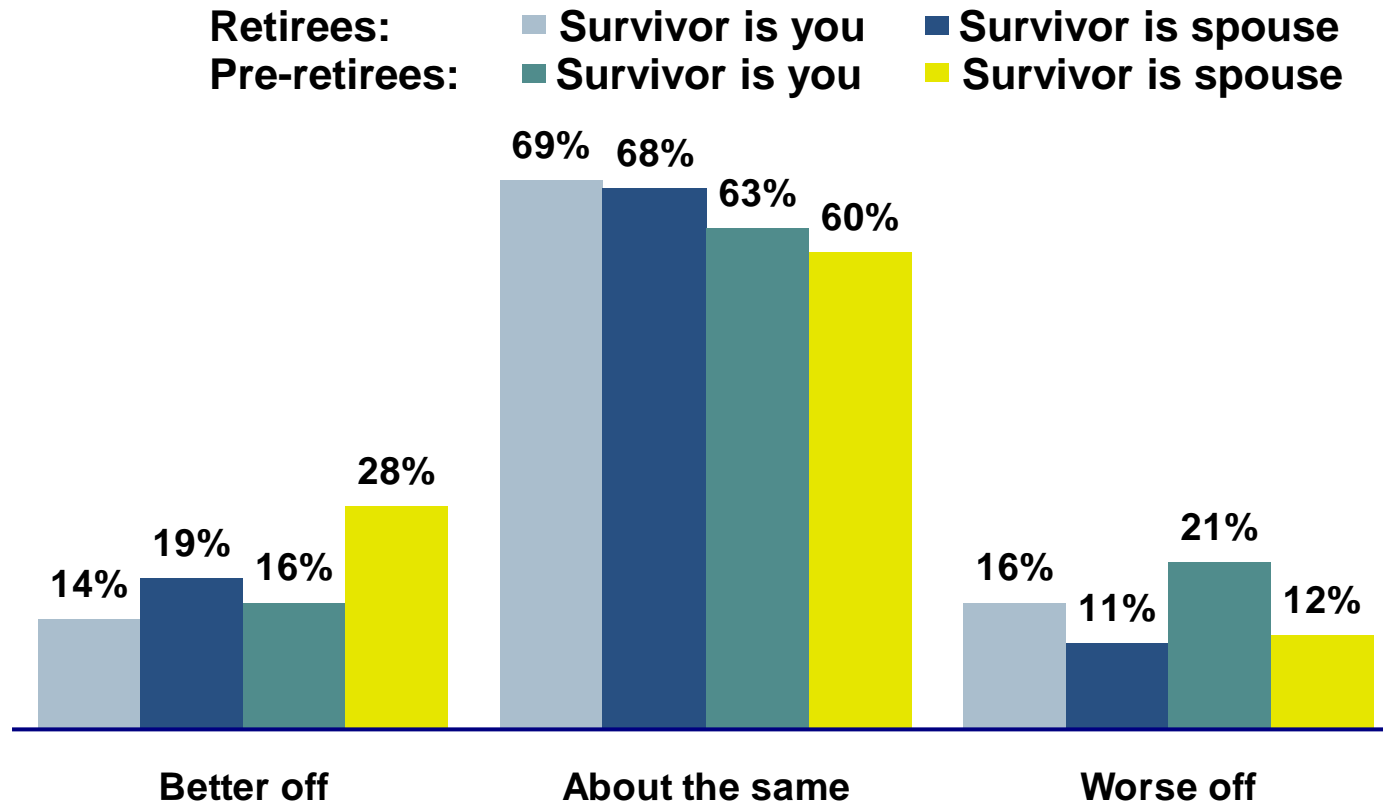
Source: Society of Actuaries – Segmenting the Middle Market: Retirement Risks and Solutions, Update to 2010 Data.



Planning: 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

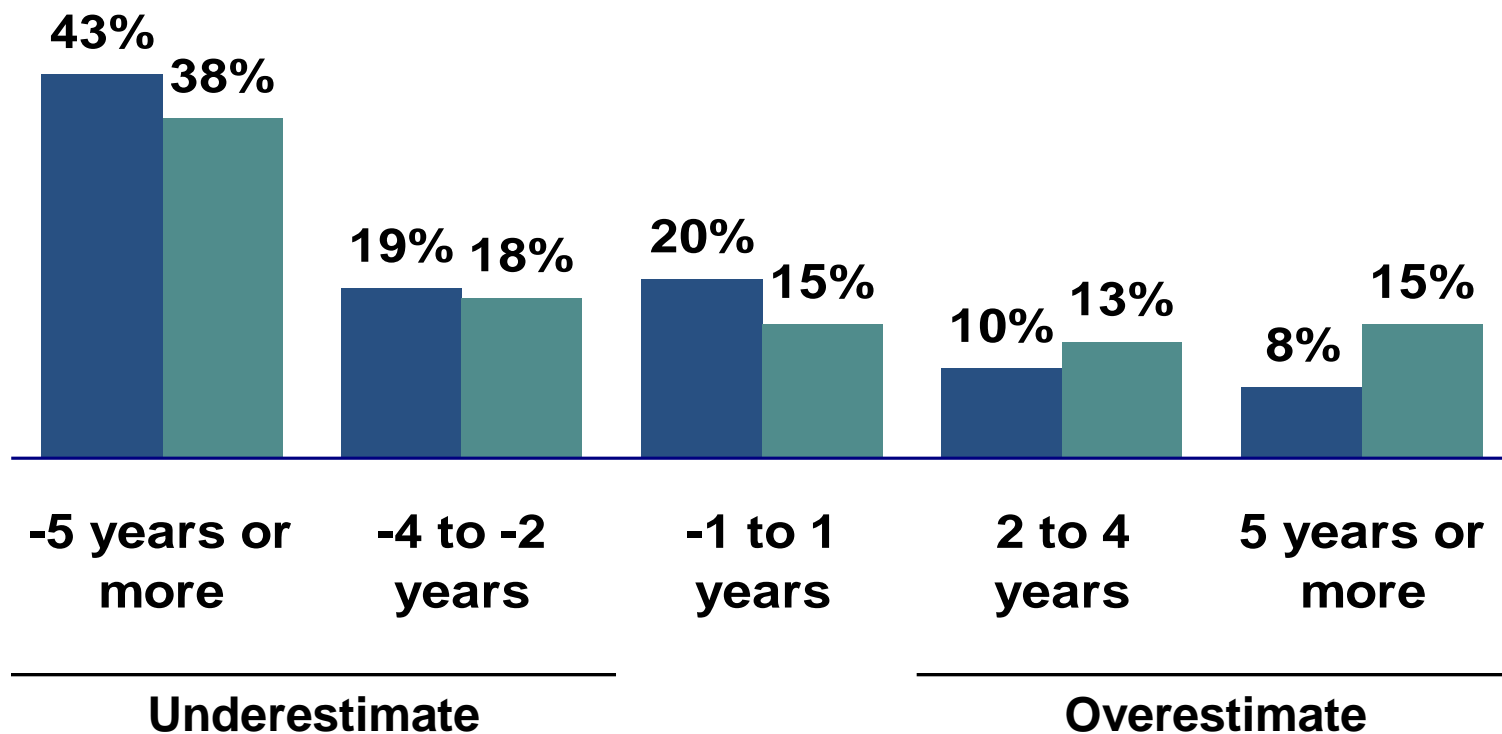


Planning: Understanding Longevity

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

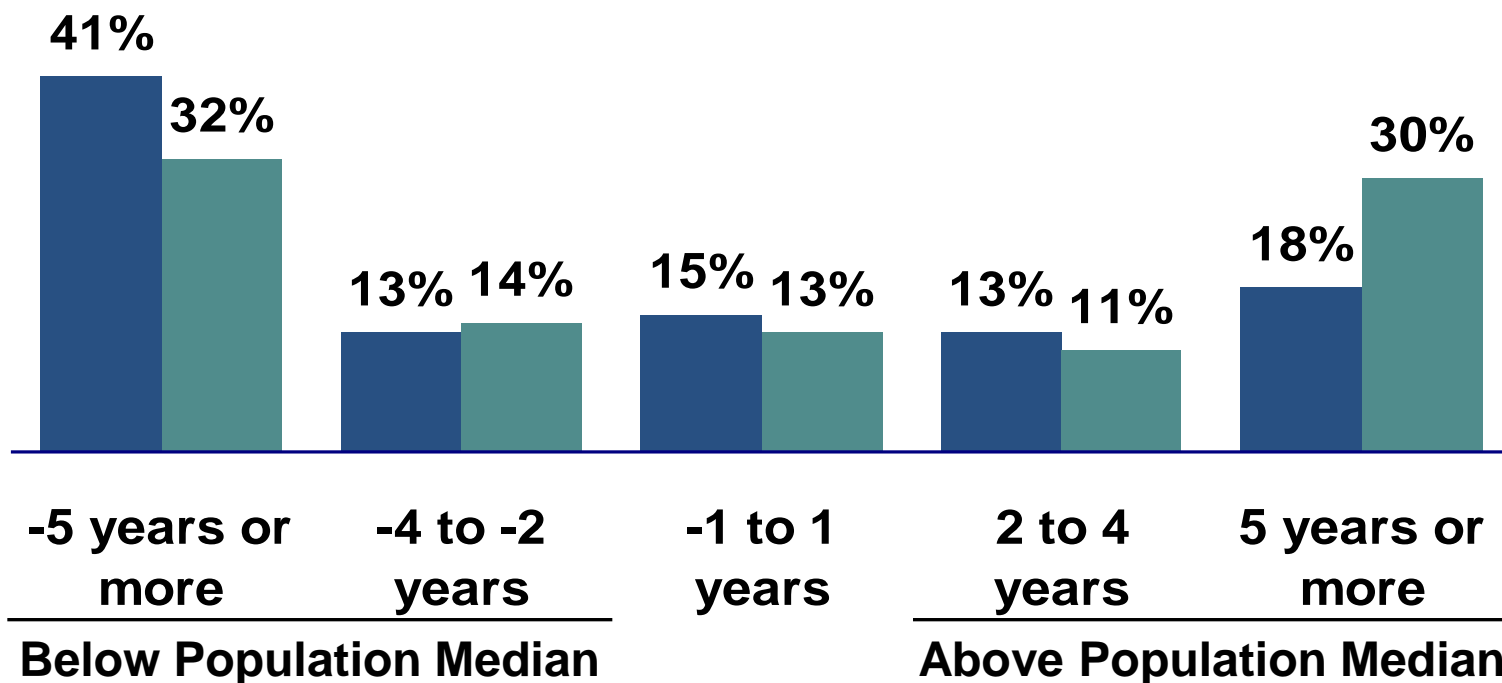


Planning: Understanding Longevity

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)



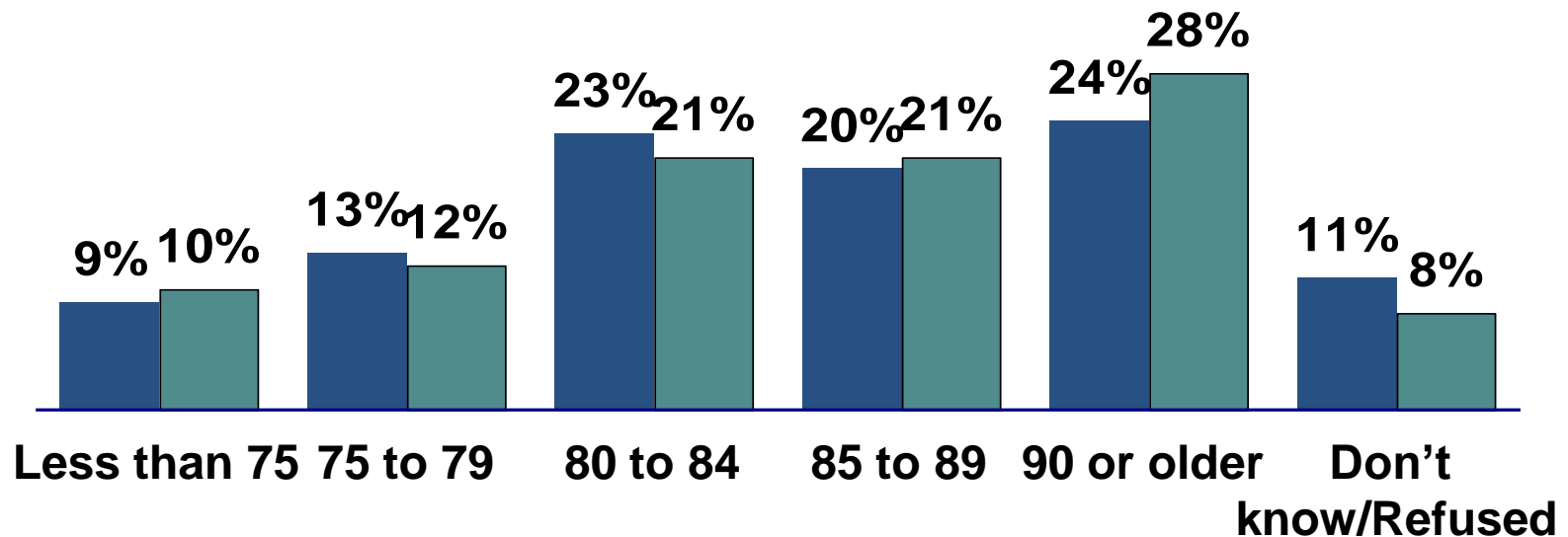
Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Planning: 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



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



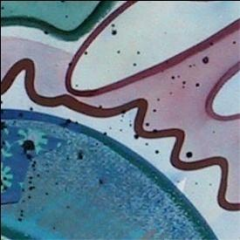
Conclusions and Future Insights

- Misperceptions still exist after 25+ years of experience with DC plans and IRAs
- Lot of stability in risk perceptions in spite of investment market instability and move away from DB plans
- Unclear how economic instability impacts longer-term 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
- 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



Conclusions and Future Insights (continued)

- Women's retirement security has changed slowly but not improved very much
- Working longer is very important for many people
- 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
- Big unresolved policy issues exist – but little immediate expectation of moving forward
 - Key to keep Social Security and Medicare strong
 - Support for employer plans mixed but plans important
 - Little focus on supporting longer work and its importance
 - Taxation policy may have detrimental effects on retirees
- Individual action will continue to grow in importance



Bottom Line: Public Action, Knowledge and Perceptions

- Many gaps in knowledge about retirement
 - Few think long term: planning horizons are short
 - Assets vs. expectations: out of step
 - Major problems with math and financial literacy – lack of investment knowledge
 - Little focus on systematic risk management
- Major method of managing risks
 - Reduce spending
 - Little focus on risk management products
- Much changes during retirement, without pre-planning



For SOA Research Reports and More Information

- All of the reports discussed are available on the Society of Actuaries website at:
 - <http://www.soa.org/research/research-projects/pension/research-post-retirement-needs-and-risks.aspx>
- For more information about SOA Research – contact SOA Research Actuary Steve Siegel at
 - 847-706-3578
 - ssiegel@soa.org
- Anna Rappaport can be contacted at anna@annarappaport.com