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STRATEGIES FOR A SECURE RETIREMENTSM



**US Perspectives:
Aging, Pensions and
Perceptions**

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Agenda

- The U.S. Situation Today
- Public Action, Knowledge and Perceptions
- How and When We Retire
- Comparison of U.S. and Canadian Survey Results
- Conclusions and Future Insights



The U.S. Situation Today

- Components of Retirement Wealth by Quintile
- Median Income by Age
- Pension Coverage
- Big Picture: Poverty, Older Americans and Pensions
- DC Plans in 2013
- Longevity: Life and Health Expectancy by Age



Americans Nearing Retirement: Percentages of Augmented Wealth by Quintile (in U.S. dollars)

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 Benefits	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.



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



Pension Coverage

% of Households with Working Head Age 55-64 (2010)	Type of Pension Coverage
DB only	10%
Both DB and DC	31%
DC only	40%
None	19%

Source: ICI, The Success of the US Retirement System 2012

Total Population Segment	% with Pension Coverage (2011)
% of all workers	40%
% of full-time full-year workers	54%
% Private sector wage and salary workers aged 21-64	39%
% Public sector wage and salary workers aged 21-64	73%

Source: EBRI, Employment-Based Retirement Plan Participation, November 2012, Issue Brief #378



Big Picture: Poverty, Older Americans and Pensions

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
- More individual responsibility but gaps in individual knowledge
 - DB plans continue to decline and DC plan role increasing
 - U.S. savings rates are low – currently 3-4% of personal income
- Employer roles are significant in large organizations and public sector, limited in small companies
 - People save much more with access to employer plans
 - DC plan provides fiduciary protection and possibly lower expenses
- Public policy: uncertainty and driven by tax revenue considerations



DC Plans in 2013

- **Emphasis on “auto-features” and defaults**
 - Auto-enrollment
 - Auto-increases
 - Default funds - Target Date funds
- **Issues: Controversy about success/failure of plans**
 - Adequacy - results good for long term employees in larger companies who save well
 - Distributions - mostly lump sums - very few offer income solutions
 - Leakage - loans and withdrawals
 - Investing - challenging for most individuals
 - Coverage - many people left out of the system
 - Shocks - early terminations, disability, layoffs
- **Shift to DC plans compounds need for individual action**



Longevity: Life and Health Expectancy by Age (U.S. Data – in years)

Many Americans have no guaranteed income beyond Social Security, no medical coverage beyond Medicare and no long term care insurance.

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



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
- Society of Actuaries Post Retirement Risk Surveys:
 - Every two years in U.S. since 2001
 - CIA conducted similar Canadian survey in 2010



Post-Retirement Risk Perceptions: Overview of 2001-2011 Risk Survey Results

- Persistent gaps in knowledge and understanding
- Significant similarity to Canadian results
- Top risk concerns over entire period: inflation, health and long term care
- Lot of stability after six surveys; overall consistency with other work
- Pre-retirees more concerned than retirees
- 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

Source: Society of Actuaries Post-Retirement Risk Survey series



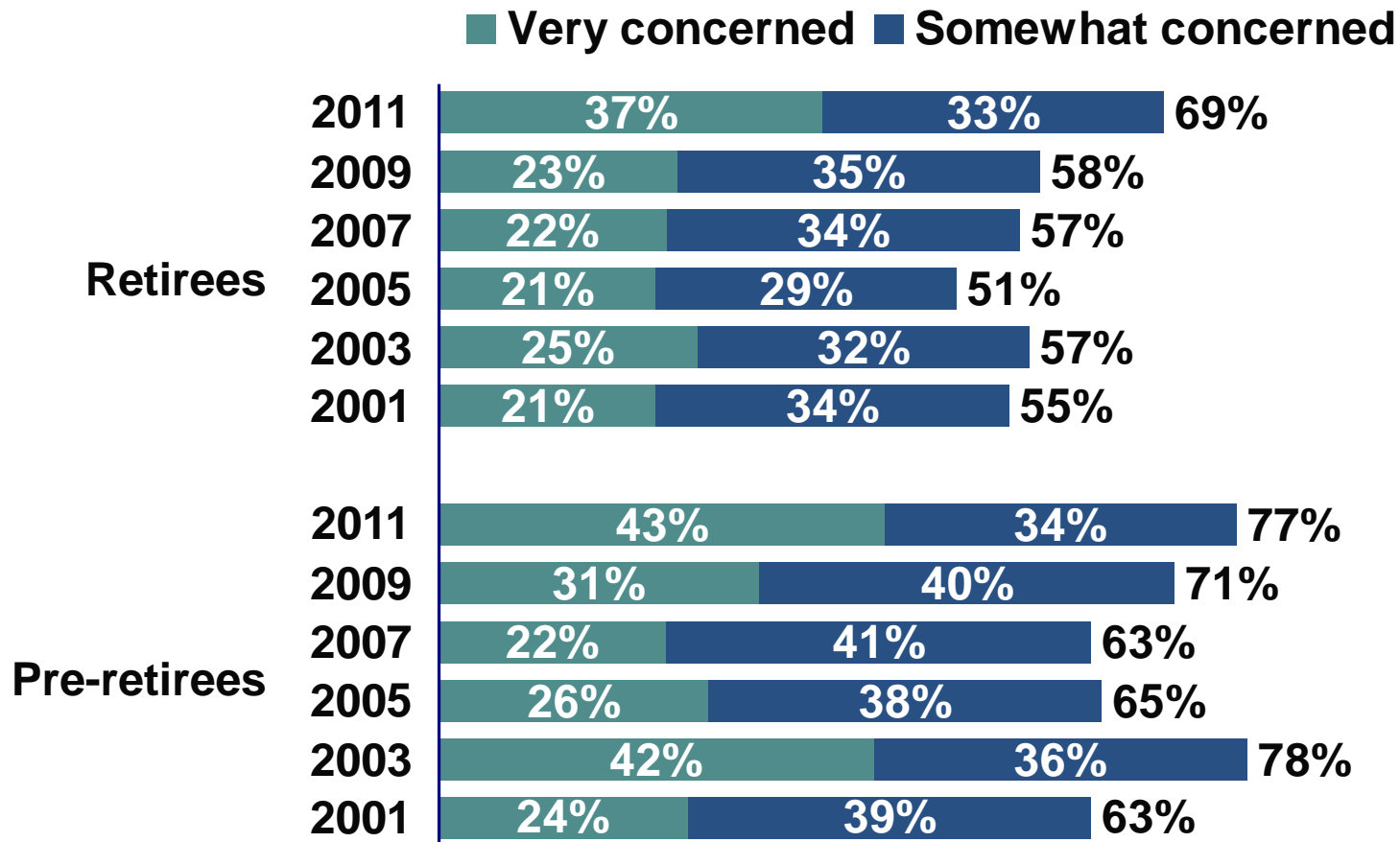
SOA Risk Survey Top Concerns: % Very or Somewhat Concerned

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 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



Planning For Retirement: Summary of SOA Risk Survey Results

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



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

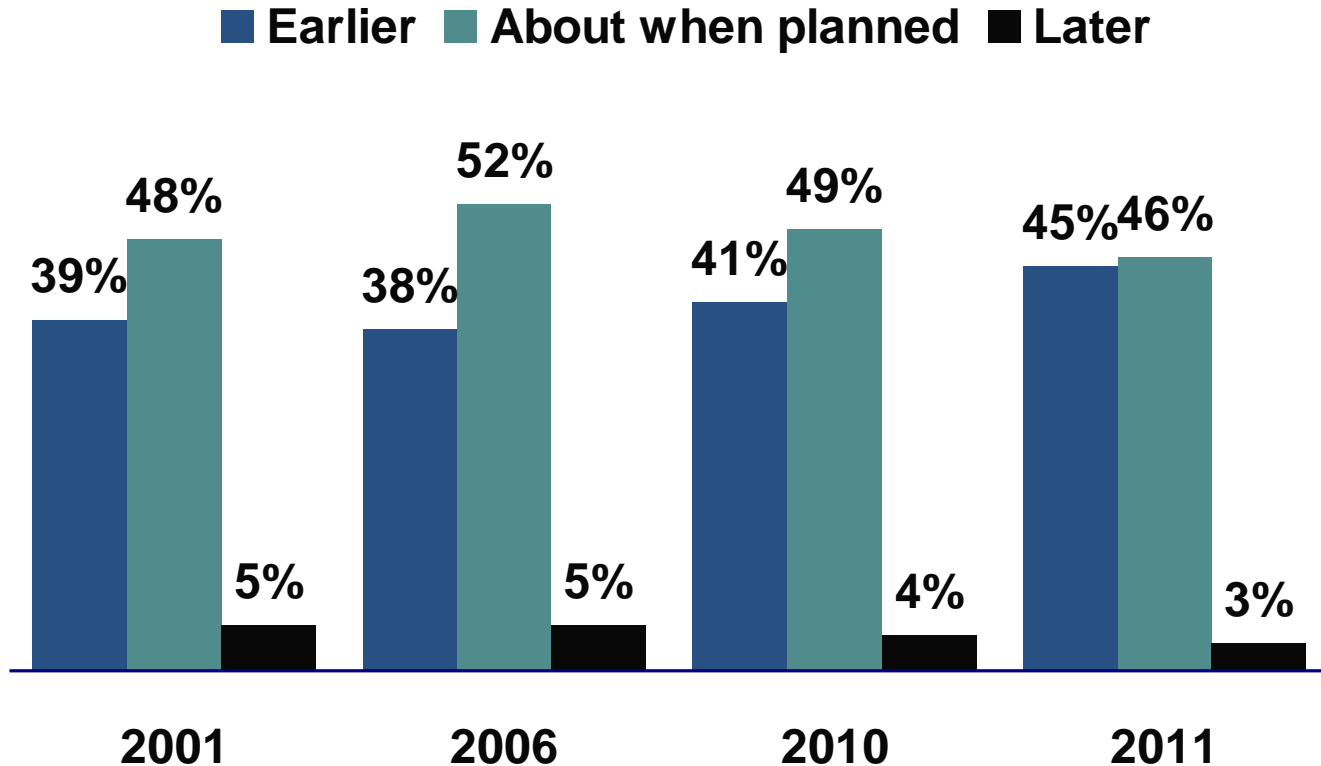
Source: Society of Actuaries, 2009-2011 Risks and Process of Retirement Survey



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)



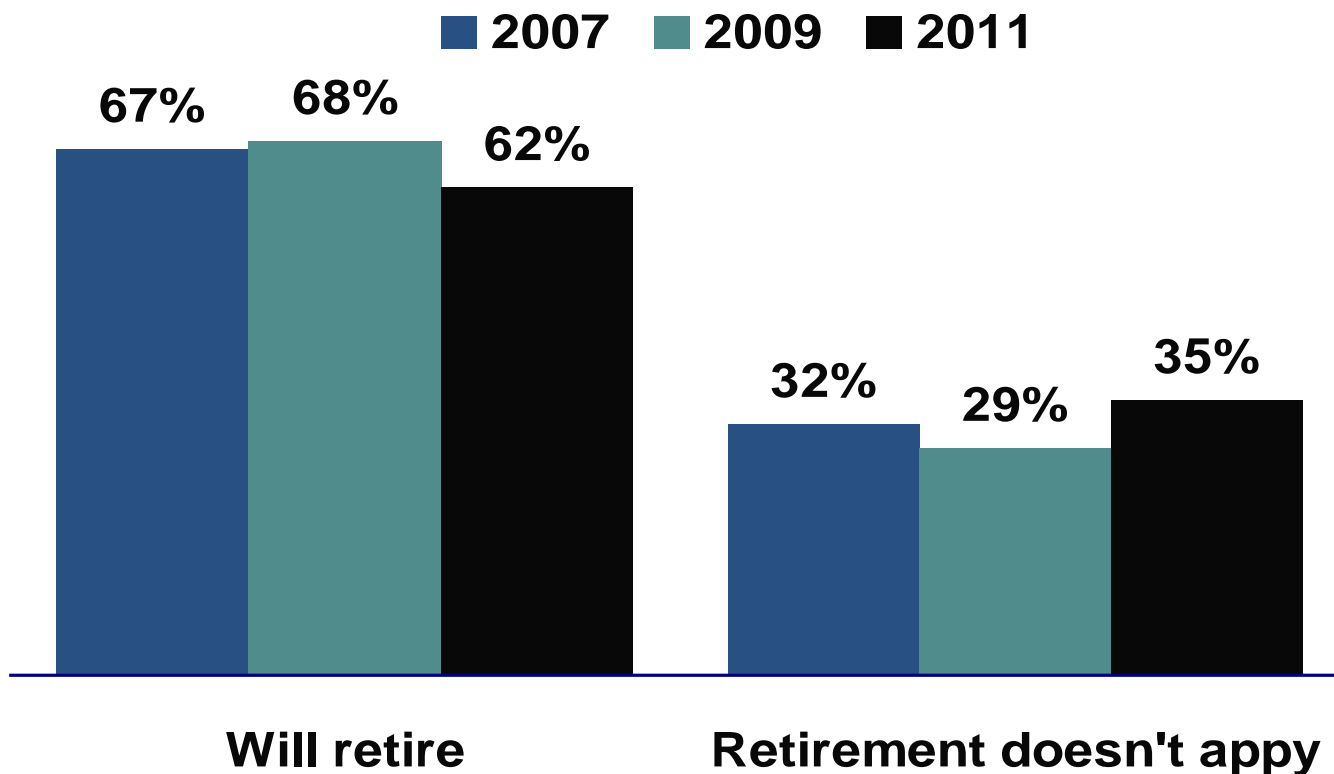
Source: EBRI/Greenwald, 2001-2011 Retirement Confidence Surveys

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)

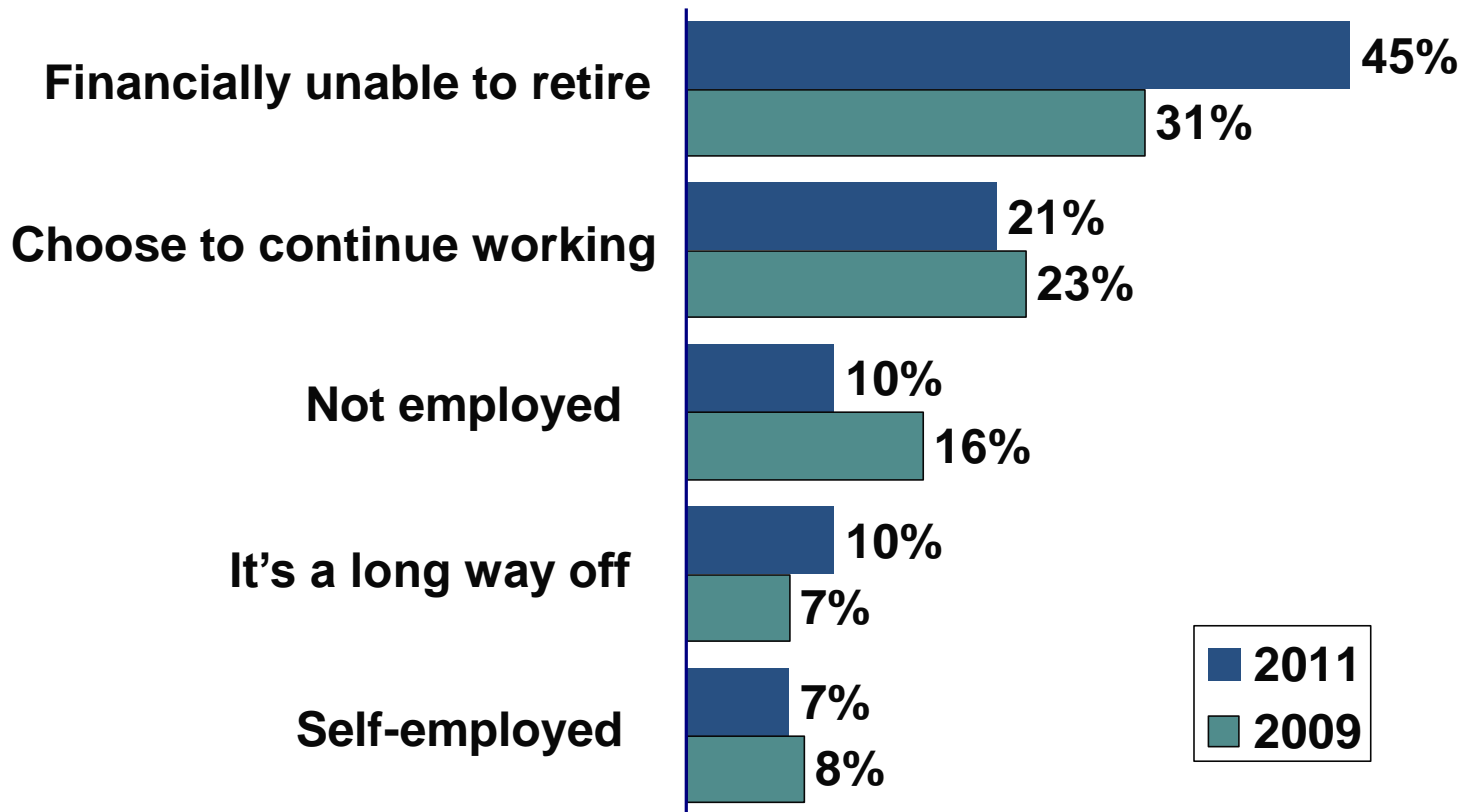


Source: Society of Actuaries, 2007-2011 Risks and Process of Retirement Surveys

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)

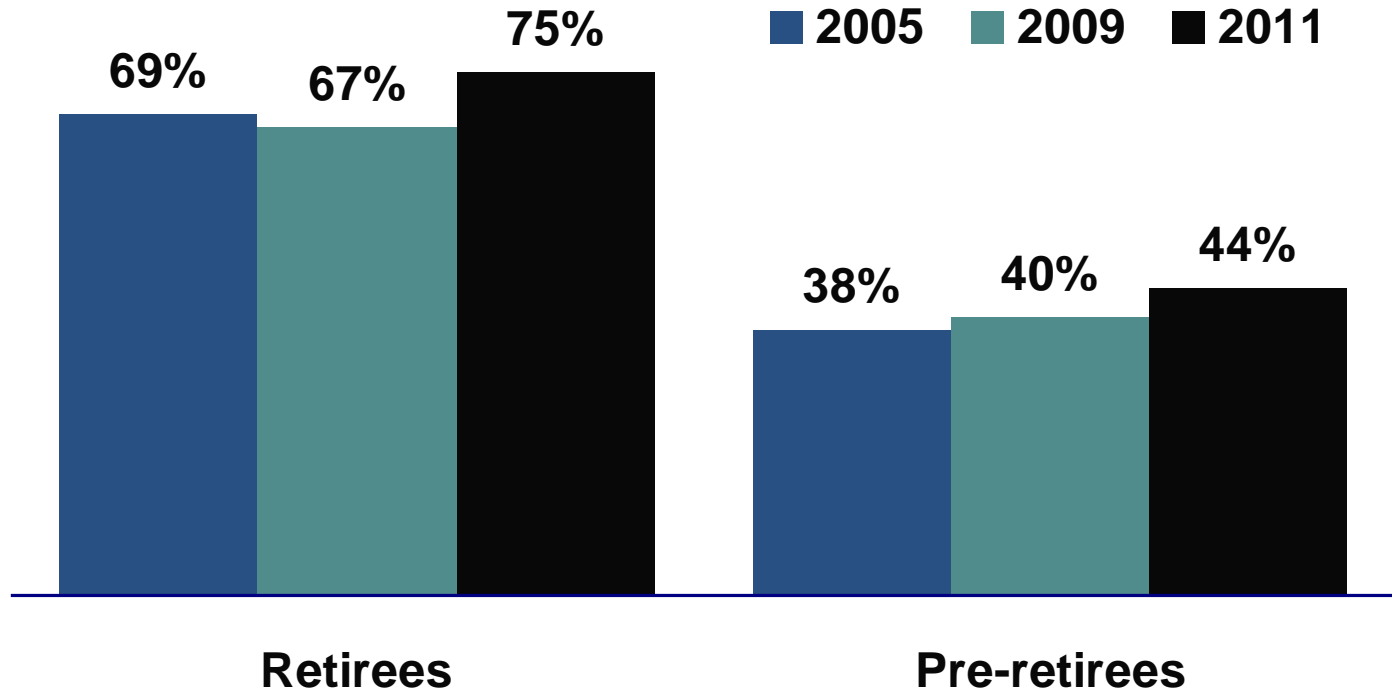


Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Work as Part of Retirement:

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)

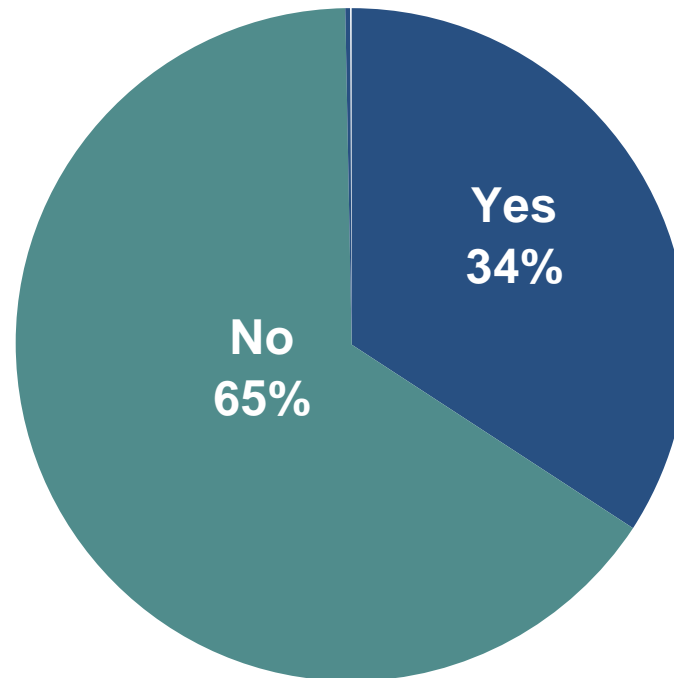


Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

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



Comparison of U.S. and Canadian Survey Results

- Generally similar surveys
 - 2009 US – by telephone
 - 2010 Canada – on-line
- Respondents in both countries very or somewhat concerned about:
 - Having enough money to pay for health care and long term care
 - Depleting all of their savings
 - Inflation risk and maintaining a reasonable standard of living
 - Maintaining the same standard of living for their partner if they should die first



Comparison of U.S. and Canadian Survey Results (continued)

- Respondents in both countries not very concerned about
 - Leaving money to children or other heirs
 - Relying on children or other family members for assistance
- Canadian respondents expressed more concern about ability to remain in their homes
- Top four risk management strategies are similar in both countries
 - Eliminating all consumer debt
 - Completely paying off any mortgage
 - Trying to save as much money as possible
 - Cutting back on spending

Note: While demographics are quite similar, health care systems are very different. Both have a mix and public and private pensions. Both lack government funded long term care systems.



Conclusions and Future Insights

- Societal basis: Older Americans better off than the population as a whole
- Move to DC plans + gaps in financial literacy create future challenges
 - Many people will not have adequate resources
 - No widespread adoption of systematic methods of paycheck replacement
 - Middle market is underserved by planning and advice
- Lot of stability in risk perceptions in spite of investment market instability and move away from DB plans
- Misperceptions still exist after 20+ years of experience with 401(k) plans and IRAs, and related educational efforts



Conclusions and Future Insights (continued)

- A strong retirement system must include programs that work for those who will not take the initiative
- Widows and very old will continue to be vulnerable
- Working longer is very important for many people
- 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



Questions



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
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