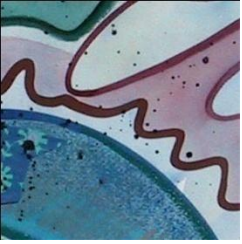


SOA Research: Perceptions, Management and Misunderstandings of Retirement Risks

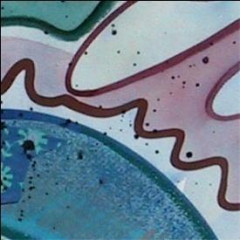
Presentation by Carol Bogosian, ASA
Iowa Actuarial Education Event
March 2013

Important SOA Research about Retirement



Agenda

- Context
- Overview of Research
- Research Results by Issue
 - Post Retirement Risk Concerns
 - How and When We Retire
 - Work as Part of Retirement
 - Importance of Housing
 - Planning for Retirement
 - Understanding Longevity
 - What Changes During Retirement
- Long-term Findings
- Opportunities for Actuaries



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 – SOA Risk Chart

**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

Inflation
Interest rate
Stock market
Bad advice, fraud, theft

**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



Overview of Research

Post-Retirement Needs and Risks

- SOA Committee provides ongoing research: 15+ year effort
- Foundation: Managing post-retirement risks
- Focus: Middle income individual aged 50+
- Members: Broad range of expertise in various fields
- 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



Overview of Research

Bi-annual Survey Focused on Post-Retirement Risk Perceptions

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



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 under development:
 - Focus groups on Retirement Decisions
 - Paper on Retirement Income Solutions



Overview of Research SOA Decision Briefs for Individuals

- Provides guidance for major retirement decisions
- Prepared by retirement professionals for individuals to use
- 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



Research Results by Issue

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 in all years
 - In 2011, retirees seem more concerned than in prior years
- Since the surveys started in 2001, two major periods of stock market decline – results seemed affected for the next survey after the decline
- Interest in buying financial products other than supplemental health insurance over age 65 and health insurance at all ages seems low



Post Retirement Risk Concerns

Results: Risk Perceptions

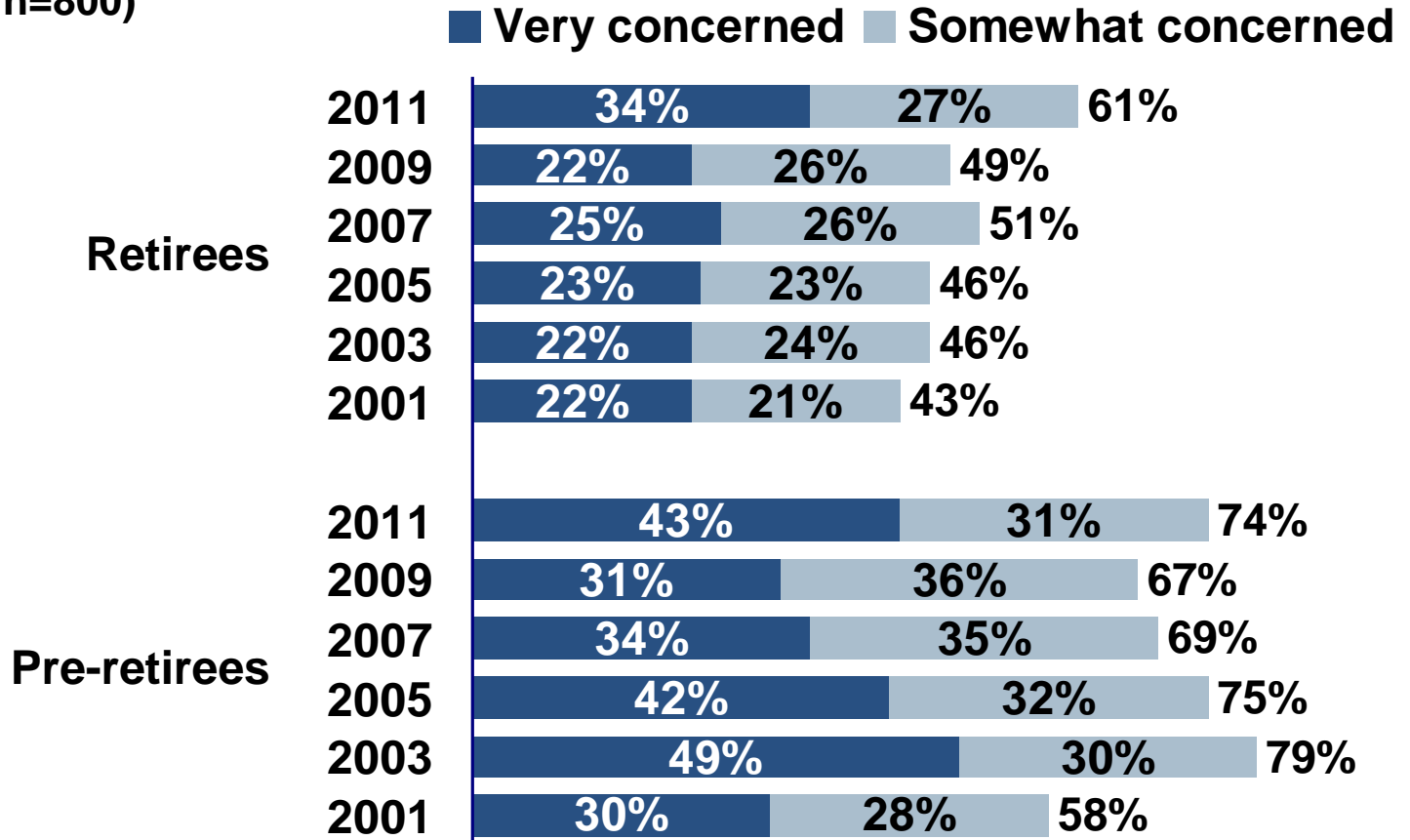
- Biggest areas of concern: health care, long-term care, inflation
- Retiree concerns about risk increased in 2011
- Pre-retirees more concerned about risk



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)

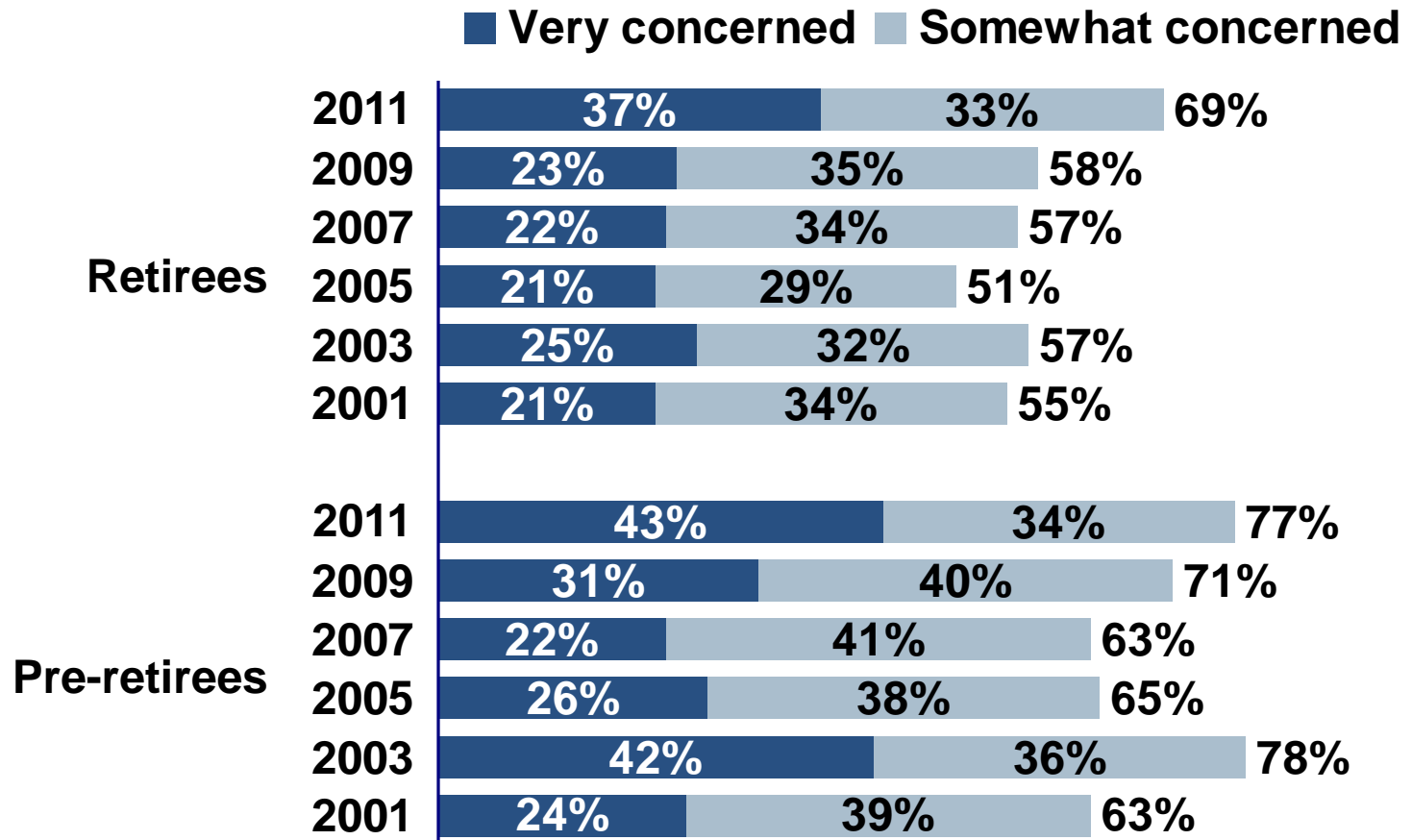


Source: Society of Actuaries, 2001-2011 Risks and Process of Retirement Surveys

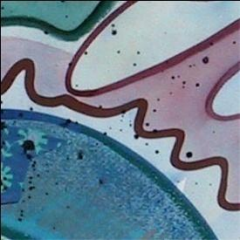
Post Retirement Risk Concerns

Retiree concern about inflation risk is up 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



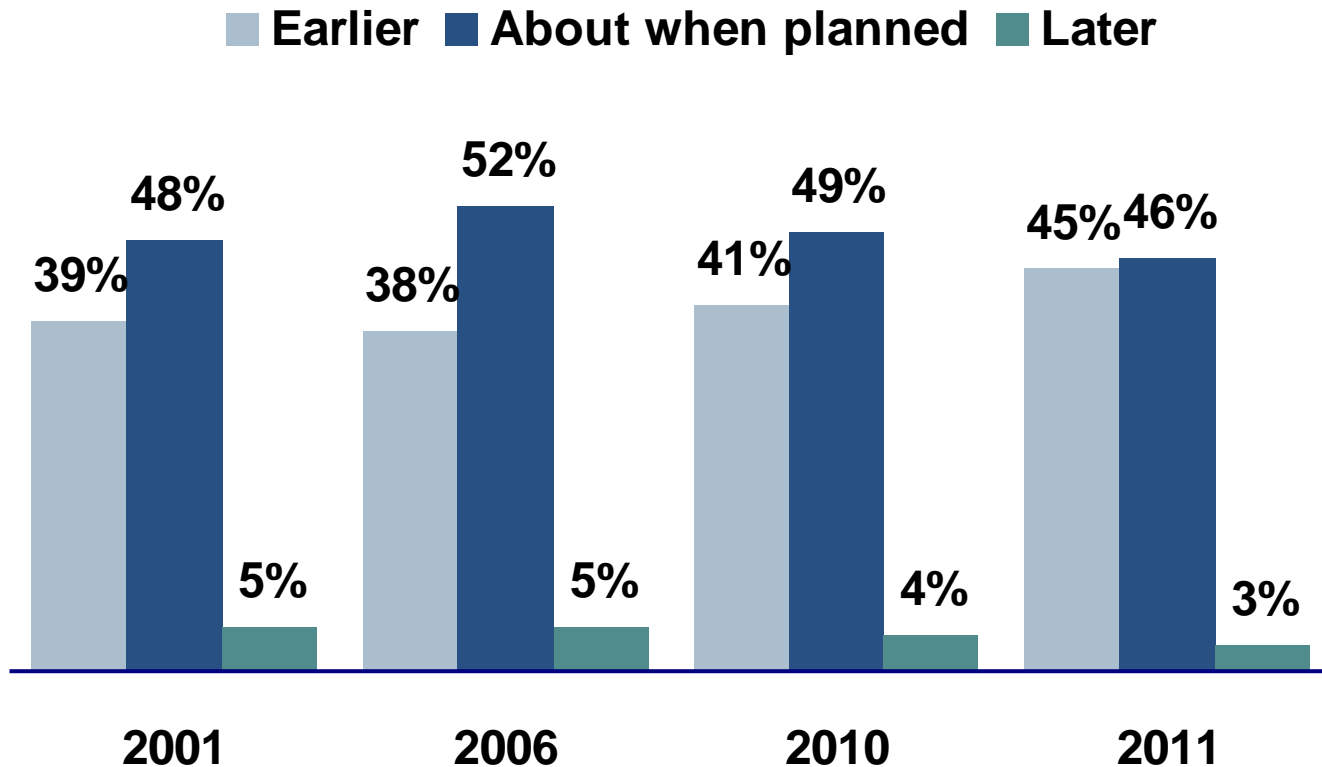
How and When We Retire

- 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

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

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

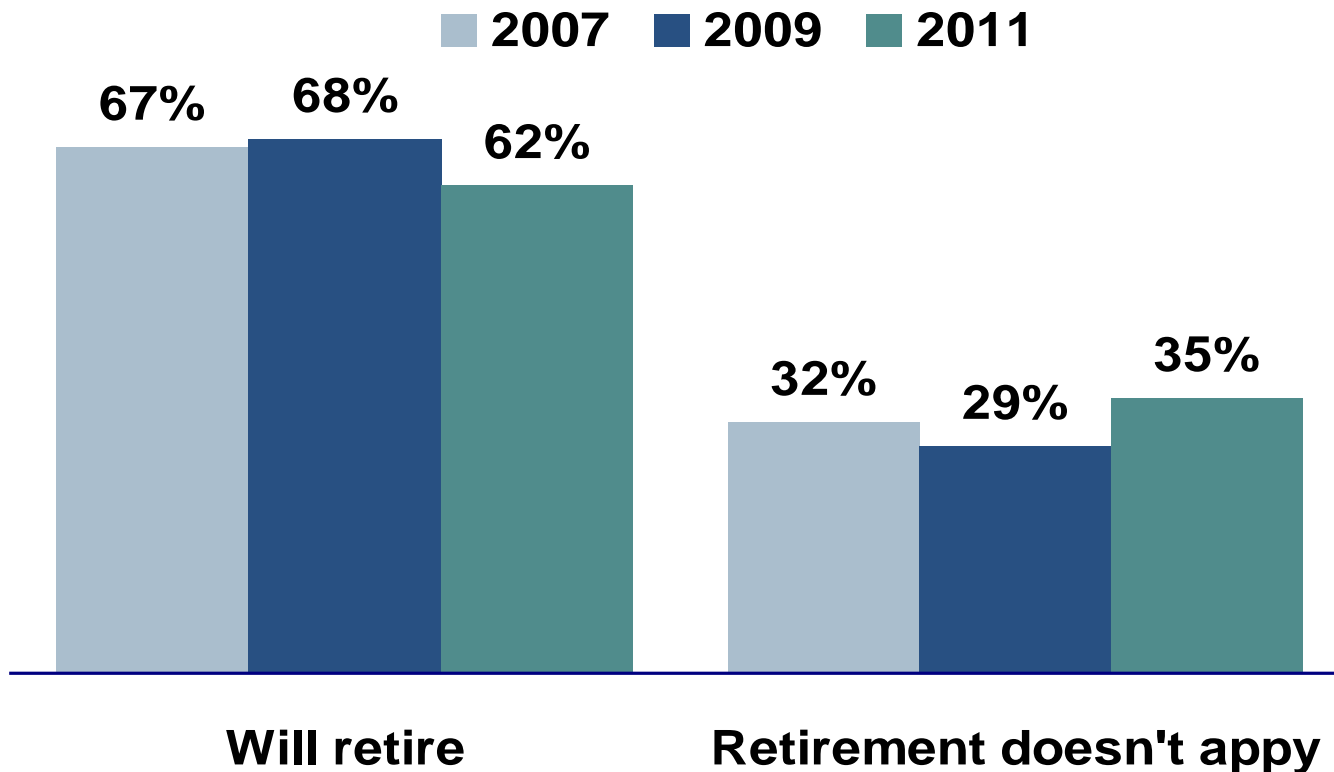
Source: Society of Actuaries, 2009-2011 Risks and Process of Retirement Survey

How and When We Retire

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)

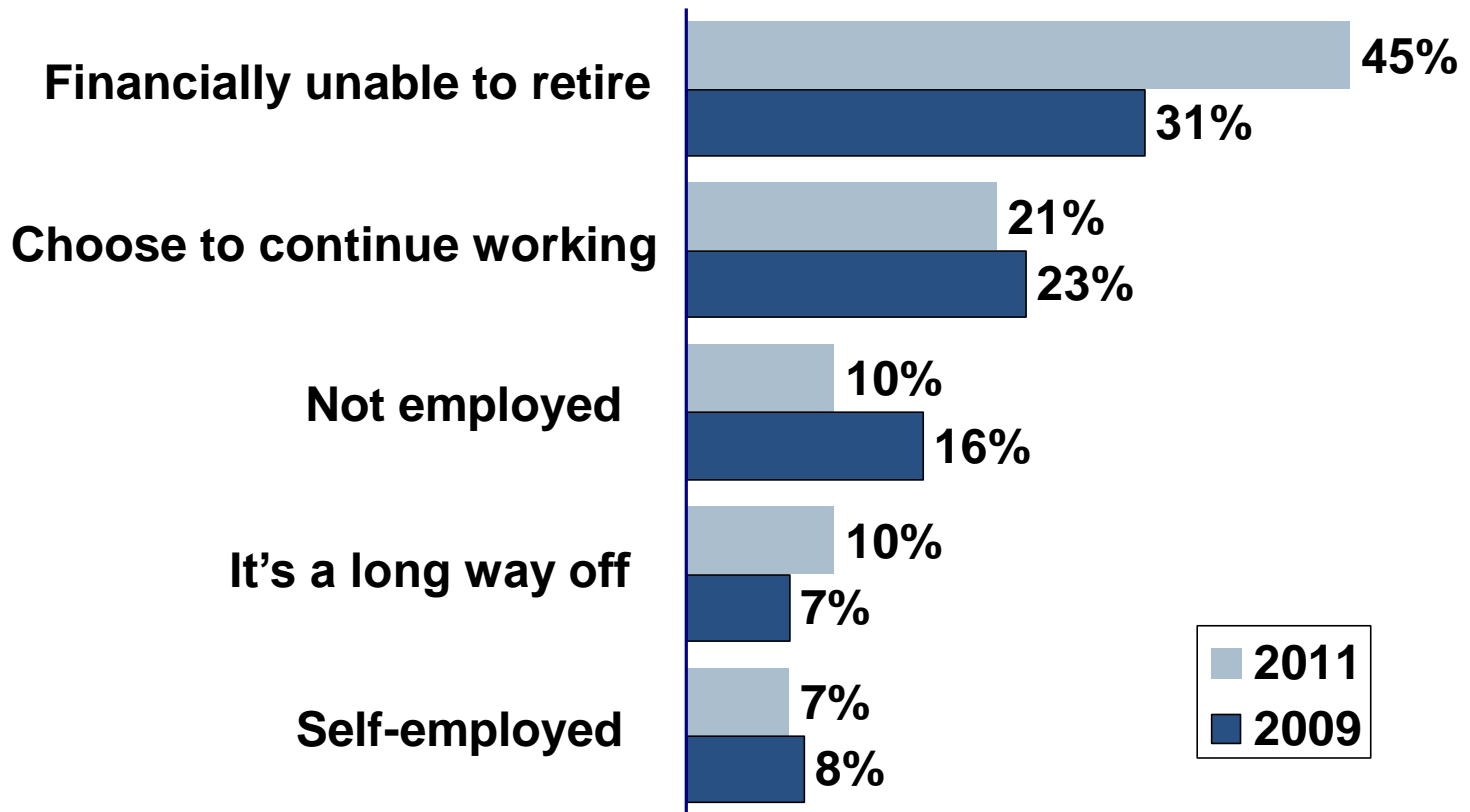


Source: Society of Actuaries, 2007-2011 Risks and Process of Retirement Surveys

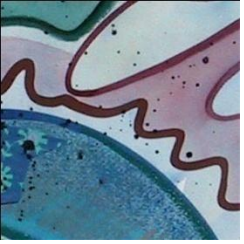
How and When We Retire

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



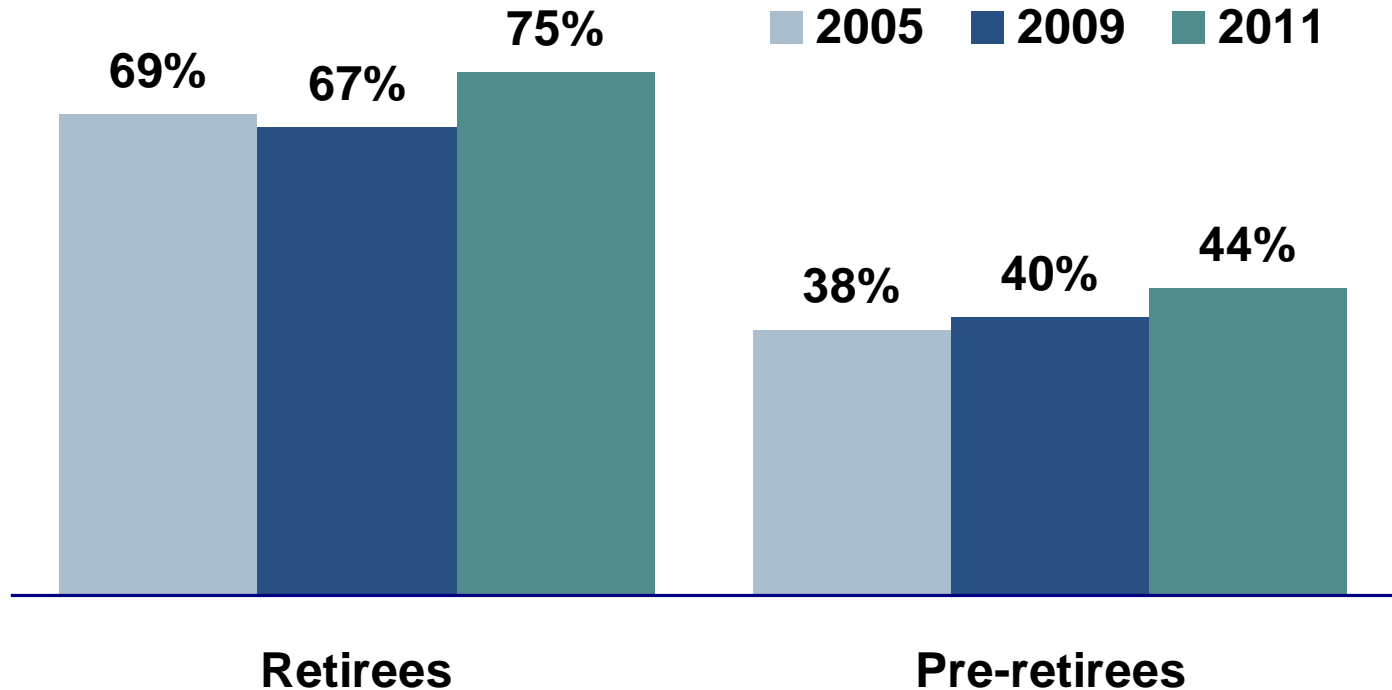
Work as Part of Retirement

- 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)



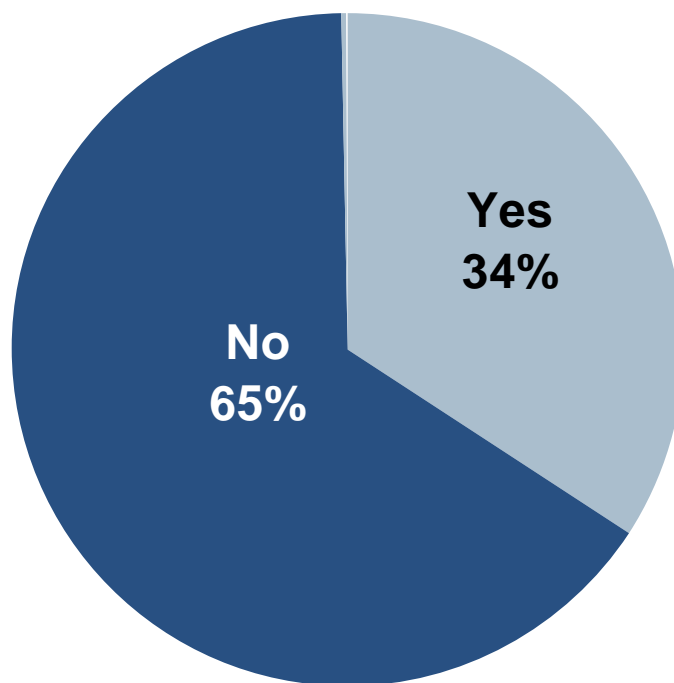
Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey



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



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 for Retirement

- Planning horizon is 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



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)

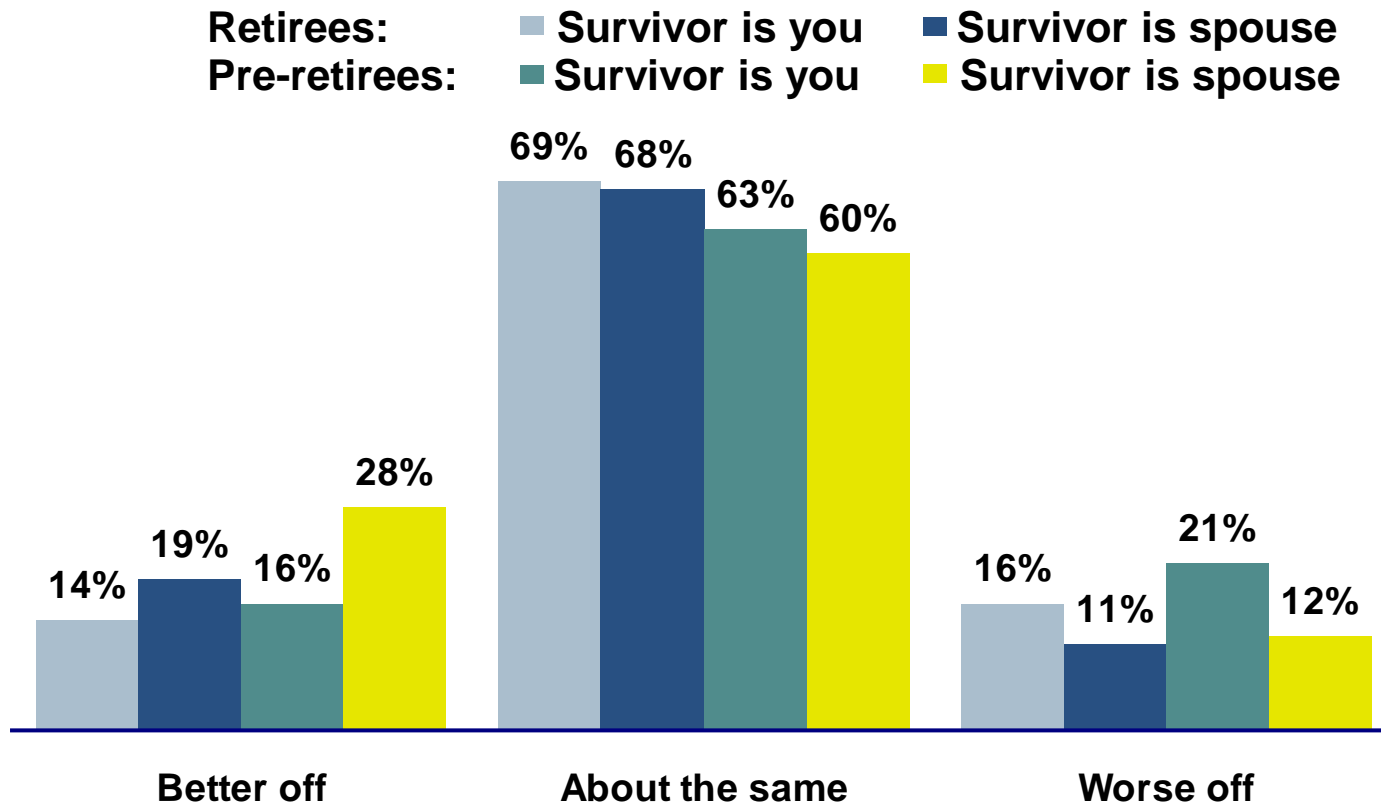
Top Mentions (multiple responses accepted)	Retirees (%) (n=330)	Pre-retirees (%) (n=353)
Save (more) money	16	37
Invest to make assets last	15	19
Buy long-term care insurance	11	8
Make home modifications	6	4
Cut back on spending	6	4
Stay healthy/improve health	4	4
Pay off debts	2	5
Nothing	28	15
Don't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

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

Planning for Retirement

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

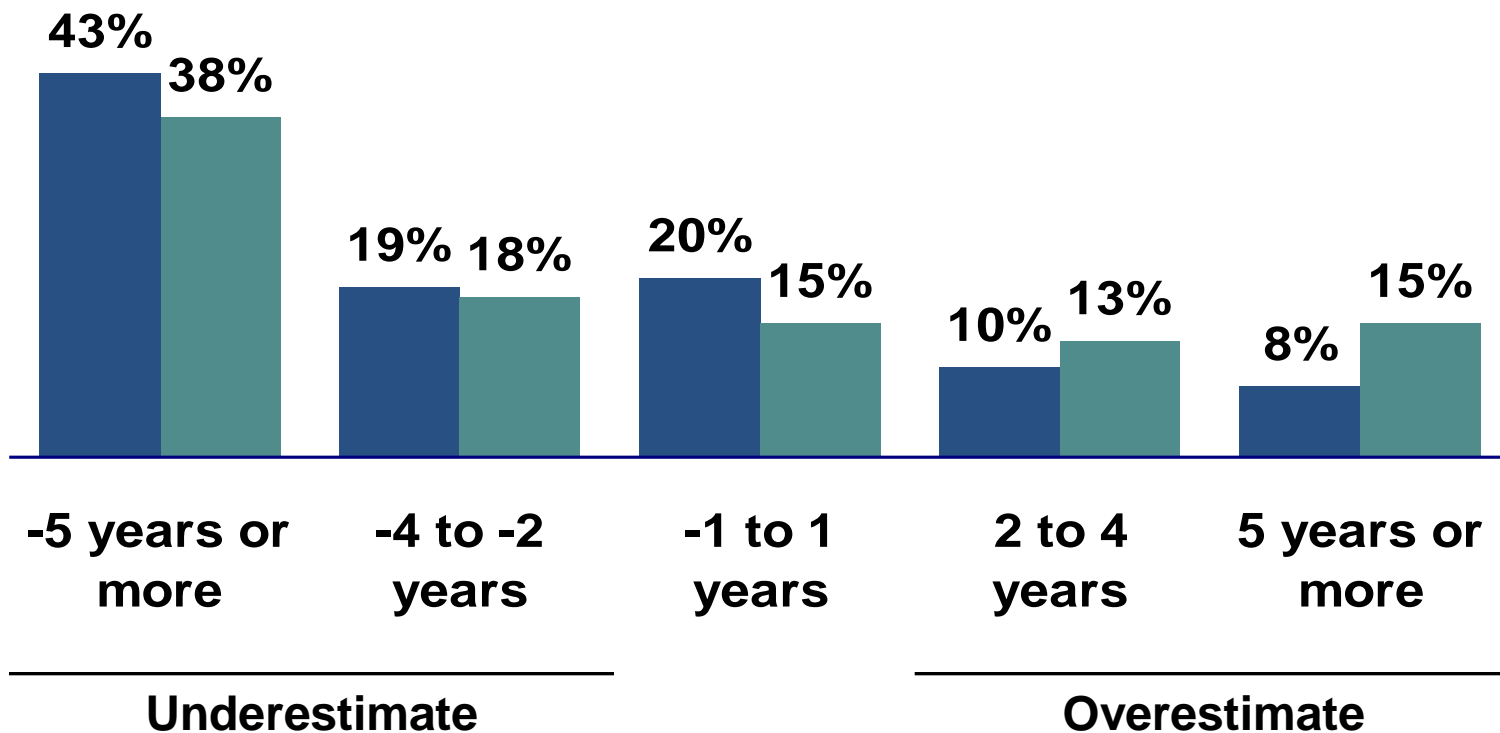
Important SOA Research about Retirement

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

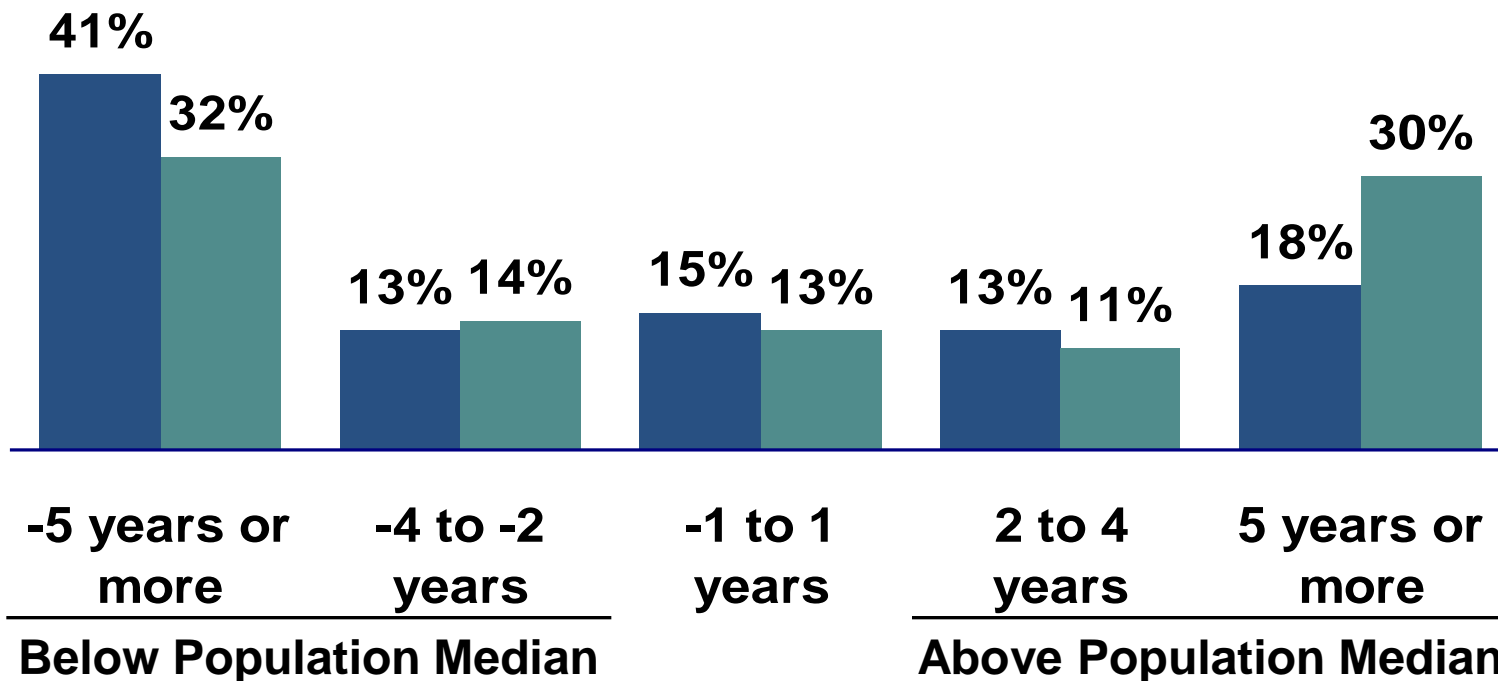


Understanding Longevity

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

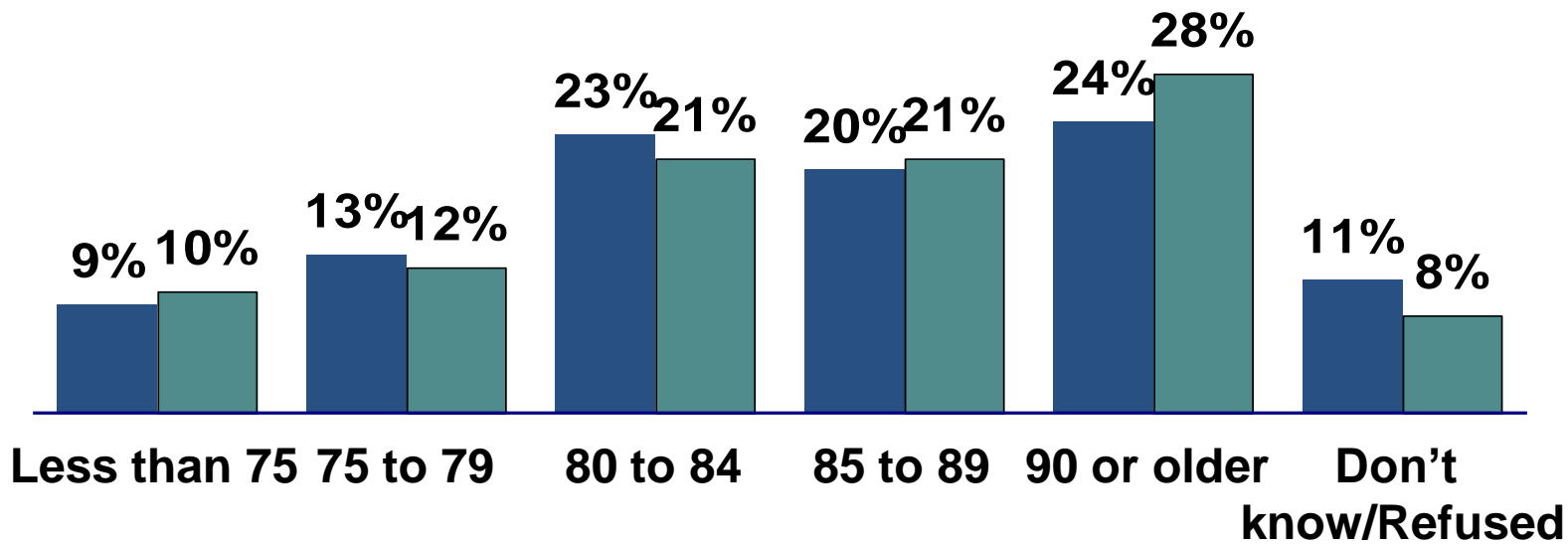


Understanding Longevity

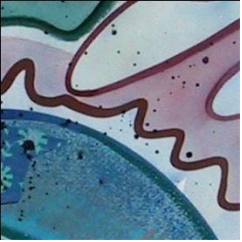
Many expect to live well into their 80s

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



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: 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



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



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



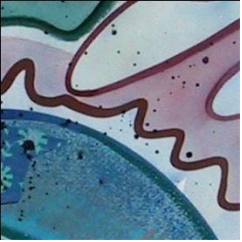
Long-term Findings

- 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

- Joining in SOA committee work
- Sharing SOA research with your clients/employer and using it in your work
- Introducing retirement concepts to interested community groups
- Sharing expertise with other professionals servicing the employee and retiree population



Opportunities for Actuaries

- Actuaries are responsible for asking the right questions, assessing the risks and helping clients think about better solutions
 - What happens when employees can't retire?
 - How 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?
- What expertise can we share with financial planning professionals as motivating individuals to plan for retirement is extremely difficult?
- Given how people make decisions, how do we help them better manage pools of assets prior to and in retirement?



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
- For information about the Post Retirement Needs and Risks Committee – contact Anna Rappaport, Chairman at anna@annarappaport.com
- For more information about this presentation – contact Carol Bogosian at cbogosian@aol.com