

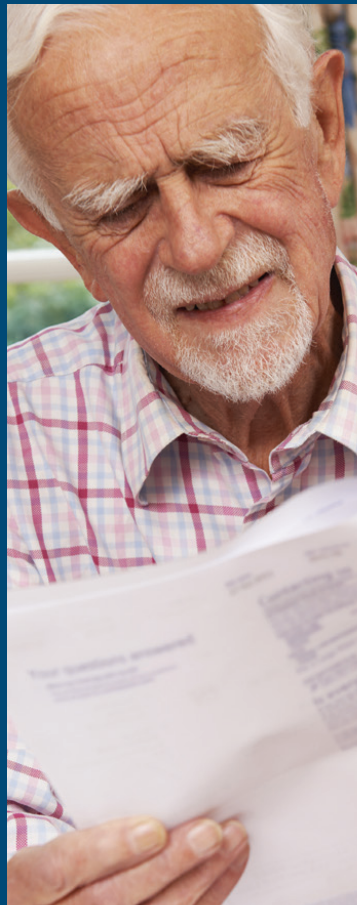


**Understanding and Managing Post-Retirement Risks**

A series of reports presenting highlights from the Society of Actuaries extensive body of research on post-retirement risks and issues.

# Post-Retirement Risks and Related Decisions

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# In This Report

**This introductory report includes references to the following Committee research and initiatives.**

## **BIENNIAL RISK SURVEYS**

*2001 – 2015 Risks and Process of Retirement Survey.* Each survey includes topics of special focus.

*2015 Risks and Process of Retirement Survey: Key Findings and Issues, Spending Patterns and Debt,* Society of Actuaries, 2016

*2015 Risks and Process of Retirement Survey: Key Findings and Issues, Shocks and Unexpected Spending in Retirement,* Society of Actuaries, 2016

## **FOCUS GROUPS AND IN-DEPTH INTERVIEWS**

*Post-Retirement Experiences of Individuals Retired for 15 Years or More* (2015)

*The Decision to Retire and Post-Retirement Financial Strategies: A Report on Eight Focus Groups* (2013)

*Spending and Investing in Retirement: Is There a Strategy,* Society of Actuaries, LIMRA, and INFRE (2006)

## **CONSUMER INFORMATION**

*Managing Post-Retirement Risks* (a guide to the risks)

## **MANAGING RETIREMENT DECISIONS BRIEFS**

*Big Questions: When Should I Retire?*

*Deciding When to Claim Social Security*

*Where to Live in Retirement*

*Taking the Long-Term Care Journey*

## **ESSAYS AND PAPERS**

*Diverse Risk Essay Collection*

*Financial Wellness Essay Collection*

*Managing the Impact of Long-Term Care Needs and Expense on Retirement Security Monograph*

# Post-Retirement Risks and Related Decisions

Managing retirement security in the United States has been increasingly challenging for all stakeholders. Major factors contributing to these challenges include a growing older-age population, the shift from defined benefit to defined contribution plans, and significant gaps in financial literacy. These factors contribute to a growing concern about how well Americans will fare in old age and the adequacy of their retirement security.

The Society of Actuaries' (SOA) Committee on Post-Retirement Needs and Risks (the Committee) has been working for nearly 20 years to identify and understand the way Americans manage their finances post-retirement. This research work includes a wide-ranging exploration of post-retirement risks through surveys of the public; focus groups and interviews; and collections of essays, research papers, and other research reports covering related topics.

This report is the introduction to a series of reports that will offer highlights and key findings from the 20 years of Committee research and related SOA work, together with guidance about where to find more information. This introductory report focuses on understanding the risks and the related key decisions, and introduces the SOA's research. Future reports will offer more detail on specific issues.

The intended audience for this report includes retirement experts, plan developers and service providers, and those who serve individuals, including employee benefit plan sponsors, advisors and financial services organizations.

## The Risks and Why They Are Important

Everyone faces financial uncertainty in retirement. For instance, people generally do not know when they will retire or how long they will live, how much retirement income they will have and what care they might need, and what resources will be available and how much help and care will be provided by family and friends.

Many retirees do have financial and other resources they may count upon. For instance, Social Security offers a steady inflation-adjusted income in old age for the majority of retirees and, for some retirees, employment-based pensions provide additional income. Many retirees, however, have no other regular sources of income. So while some have substantial financial assets, others have very few assets.

Even retirees with substantial assets face uncertainty. They need to invest their assets, which is a complex job in itself. They will also need to determine how and to what extent to spend down those assets.

The bottom line is that post-retirement risks impact everyone. There is no commonly accepted "cookbook" that provides information on what to do and how to deal with these risks. In fact, experts are often in disagreement on the relative merits of different approaches.

### Why This Post-Retirement Research Is Critical

Research on post-retirement risk perception is extremely important for three key reasons. First, it identifies gaps in public knowledge and perceptions about retirement risks that many may experience.

Second, the institutions serving the public are often not aware of actual strategies that many people use to manage the post-retirement risks that they encounter, nor of the perceptions people hold about potential risks. The research helps lift the veil surrounding this problem.

Third, much retirement research available elsewhere focuses on the pre-retirement period. But with more people living many years beyond retirement, and greater numbers living deep into old age, researchers and retirement specialists need more insight into post-retirement risks, needs and realities.

The table below provides some highlights of risks that SOA researchers have found retirees often face.

Some Key Risks in the Post-Retirement Years	
Risk	Discussion
<b>Outliving assets:</b> At age 65, average life expectancy is 20 years for American men and 22 years for American women. <sup>1</sup> Half of the population will live longer than life expectancy and some will even live to age 100 or longer.	There is a need to help Americans understand that they may live longer than they expect and that planning horizons are often shorter than life expectancy.
<b>Loss of spouse:</b> Women tend to live longer than their spouses. Periods of widowhood of 15 years or more are common.	Women who are widowed often experience a drop in income and standard of living. Women need to be aware of the strong possibility of widowhood and the resulting impact.
<b>Health care and medical expenses:</b> Medical costs during retirement are expected to be \$260,000 <sup>2</sup> on average for a couple both age 65. Premiums are a significant drain on the income of average American seniors.	Medicare Part B and D premiums, supplemental insurance premiums, dental and drug costs, and the costs of uncovered care all add up. Premiums are expected, but large dental and uncovered expenses are often not considered.
<b>Decline in functional status:</b> The cost of care for older, frail people can amount to \$1 million or more for a couple over their lifetimes, if both need paid care. Nursing home costs vary but can exceed \$80,000 per person per year <sup>3</sup> .	Family and friends provide most care at home but that does not always work out. Women often need care for a longer period than men.
<b>Inflation:</b> Most expenses increase during retirement, and medical costs increase more rapidly than general inflation.	While Social Security income increases with inflation, other income often does not. Pre-retirement planning that allows for the impact of inflation on savings needs helps address this.
<b>Economic risks:</b> Investment returns are variable and are influenced by both interest rates and stock market returns.	Interest rates affect returns on bank accounts, some investments and annuities. The low rates in the last decade have been a plus and a minus; borrowing costs dropped but so did returns on many investments. Stock market returns have been higher on average, but good and bad years also occur. Unexpected financial shocks in the economy can lead to difficult decision-making.
<b>Family risk:</b> Family members, including parents, sick or unemployed adult children, and grandchildren, may need financial help or personal care or support.	Many retirees help family members. Often personal retirement assets are used to support other family members.
<b>Public policy risk:</b> The possibility always exists that taxes, Social Security, Medicare benefits, Medicare premiums, and other benefits will be changed.	Since most current and future retirees will depend on these benefits to secure their retirement, the risk of changes in these programs is major, as the changes may adversely affect retirement security.

1 Source: The RP2014 Healthy Annuitants mortality table with MP2016 mortality improvement. Assumes age 65 in 2017. Data supplied by the SOA.

2 Fidelity estimates that a couple both age 65 in 2016 need an estimated \$260,000 for health care costs, not including long-term care. They estimate an additional \$130,000 as an average long-term care expense. "Health Care Costs for Couples in Retirement Rise to an estimated \$260,000, Fidelity Analysis Shows". (Downloaded on March 31, 2017)

3 Genworth finds that the 2016 national median monthly nursing home cost is \$6,844 in a semi-private room and \$7,698 in a private room. The national median assisted living facility cost for 2016 is \$3,628. (Downloaded from Genworth website on March 31, 2017)

## Relevant SOA Resources on Retirement Risks

- **The SOA Managing Post-Retirement Risks paper**  
This consumer information publication provides a much more extensive discussion of the risks shown in the chart, including discussion of the predictability that the risks may occur and some general ideas for management of the risks.
- **The SOA Diverse Risks Essay Collection**  
This includes 18 individual essays on a range of ideas. Included are discussions on how to manage the use of funds during the retirement period, holistic risk management and various specific issues.
- **Other SOA consumer information publications**

## Relevant SOA Resources on Retirement Decisions

Everyone has to make decisions about retirement. Some of these decisions can have a big impact, while others will be less important.

Research by the SOA and others has shown consistent gaps in consumer knowledge about these risks as well as repeated evidence that consumers often make decisions without evaluating the consequences.

Several areas where people often make major retirement decisions without “doing the math” include:

- Deciding when to retire
- Claiming Social Security
- Planning for the short-term rather than the longer-term
- Considering regular expected expenses, but not allowing for predictable expenses that vary in amount and timing, such as home repairs and dental expenses
- **The SOA Managing Retirement Decisions Briefs**  
This is a series of 12 Decision Briefs that the SOA developed in response to the gaps in consumer knowledge about retirement issues and risks. The articles are designed to help individuals identify their retirement issues and to make better retirement decisions.

One of our observations in the briefs is that in making decisions—such as, about when to retire—people need to consider many aspects of their lives. People who don’t do the math may often miss some of the considerations. The Decision

Briefs offer a broad discussion of the issues and considerations for each decision.

The briefs cover some of the topics shown in the example section below, plus many others, including considerations on taking a lump sum from a qualified pension plan, issues pertinent to women, medical insurance choices, how to invest assets and whether to try working in retirement.

- **2015 Risks and Process of Retirement Survey**  
This is the most recent report in the SOAs’ Biennial Risk Survey, which is an ongoing study of pre-retirees and retirees, predominantly middle-income. The study has been conducted for more than 15 years. It covers a vast array of retirement issues and adds new issues that emerge as the years unfold.

The SOA also publishes special topic reports, based on the Biennial Risk Survey. These special topic reports examine current retirement issues that are gaining attention, such as spending in retirement and dealing with financial shocks.

## Examples of Key Decisions

### WHEN TO RETIRE

The timing of when to start retirement can have a significant impact on the chance of running out of money and the amount of money available each month.

Retirement that occurs later in life will mean higher Social Security benefits (if claiming is delayed), higher pensions for some, more years to earn income and investment income before retirement, and if retirement is before age 65, fewer years before Medicare eligibility.

**For more information: See the SOA Decision Brief Big Question: When Should I Retire?**

### WHEN TO CLAIM SOCIAL SECURITY

Social Security can be the only, or the main, source of income for many people. Monthly income is about 75 percent greater if a person claims (starts Social Security benefits) at age 70 rather than age 62. The claiming age also affects the benefits payable to spouses and surviving spouses. Yet most people claim at early ages and many do not evaluate their options.

**For more information: See the SOA Decision Brief Deciding When to Claim Social Security.**

## WHERE TO LIVE

Housing is the biggest cost in retirement and a major factor in happiness. Home equity is also one of the largest assets in a middle-income retiree's retirement portfolio. Housing affects access to transportation, health care and community services, and some housing offers support services on-site. Most people would like to stay in their homes.

SOA research shows, however, that many people forget to think about home repairs and special assessments for condos in their planning. There are huge financial and personal issues involved in this choice and there are many options about what to do.

**For more information: See the SOA Decision Brief Where to Live in Retirement.**

## PLANNING FOR LONG-TERM CARE

Many people will need assistance in old age, and a few will have a long period of time where they need major assistance. This is an important reason why people run out of money in retirement. It can also be a major disaster for the retiree household.

**For more information: See the SOA Decision Brief Taking the Long-Term Care Journey and the SOA paper collection Managing the Impact of Long-Term Care Needs and Expense on Retirement Security**

## SPENDING DECISIONS

Spending is a combination of the expected and unexpected expenditures. While many retirees work carefully to manage expected spending, particularly in the short-term, there are a variety of unexpected expenses that can make a big difference. Retirees have identified home repairs, help to family, and major dental expenses as examples of such expenses.

**For more information: See the SOA 2015 Risks and Process of Retirement Survey: Key Findings and Issues: Spending Patterns and Debt**

## IMPACT ON FAMILY MEMBERS AND APPROACHES FOR ADDRESSING RISKS

Many seniors offer help to family members, some of whom have continuing needs. In addition, many people leave employment early to care for family and therefore are unable to continue to save for their own retirement. Caution is needed because such help can leave the retiree without the resources they need later.

In general, some risks can be managed by buying insurance and financial products but others cannot. The SOA Biennial Risk Surveys indicate that the most

popular methods of managing financial risk include reducing expenses, paying off debt and saving more. Buying financial products other than supplemental health insurance is not a very popular option, however.

**For more information: See The SOA 2015 Risks and Process of Retirement Survey Report Key Findings and Issues: Shocks and Unexpected Expenses in Retirement and also the essay "Don't Forget the Role of Families in Lifetime Financial Security" from the Financial Wellness Essay Collection**

## Things To Remember about Retirement Decisions

Some decisions are irrevocable—for example, choosing whether to receive a lump sum from an employer pension plan.

Some decisions must be made at a certain time—for example, choosing the form of benefit payment from an employer pension plan at retirement.

Some decisions are much more important than others—for example, deciding when to retire and when to claim Social Security.

## Persistent Retirement Risk Concerns

The SOAs' Risk Surveys and Focus Groups have uncovered repeated findings that indicate a certain consistency in risk concerns and top risk management strategies. A few of the most noteworthy eye-opening findings include:

- **There are many gaps in knowledge.** This work started before behavioral finance was widely known in the benefits field, and it is generally compatible with behavioral finance findings. Behavioral finance argues that even if people understand the financial implications of their decisions, they may not act in their best interest.
- **Individual risk and financial management behaviors often do not track with experts' expectations.** Therefore, it is very important for experts to understand prevailing public perceptions and not to make assumptions about what people will do.

- **There are three top post-retirement risk concerns.** These are inflation, health care expenses, and paying for long-term care. These concerns have been found consistently over repeated iterations of the survey through 2015; however, the ranking among concerns have changed over time.
- **Generational views differ.** Pre-retirees continue to be more concerned than retirees about most risks.
- **People may retire sooner than they expect.** For example, many retirees actually retired at an earlier age than pre-retirees say they expect to retire. The gap has been as large as seven years. In 2015, the median retirement age was 60 compared to an expected retirement age of 65.
- **The goal of working during retirement doesn't always pan out.** While many pre-retirees say they expect to continue working longer, most current retirees have not actually done so.
- **Retirement planning gaps continue to occur.** These include gaps in planning and gaps in the use of shorter planning horizons at retirement than comprehensive planning typically recommends. Many people often will not even attempt to do a quantitative analysis before making an important decision. Among those who do an analysis, the tendency many times is for them to do only a partial analysis focused on their short-term needs.
- **The top three risk management strategies show up repeatedly.** These are reduce spending, increase savings and pay off debt. Worth noting: Risk protection products, other than health insurance, are not used very often.
- **Asset retention holds sway with many retirees.** Many older people prefer to hold onto assets rather than spending them down.
- **Financial management strategies seem consistent.** Shorter- and longer-term retirees tend to describe the strategies they use in a generally uniform manner.
- **Some risks appear to be overlooked.** Retirees and pre-retirees seem to have relatively little concern about some important risks such as fraud and theft of assets.

## Tips Based on This Research

This research offers important information for individuals, advisors, organizations sponsoring employee benefits and companies that offer risk management products. The following are general tips for different stakeholders.

### TIPS FOR RETIREES AND NEAR-RETIRES

- **Plan for the rest of life.** A prudent plan considers the possibility of living longer than expected, including unexpected expenses and for couples, providing for the surviving spouse.
- **Plan as a household.** In formulating a plan, think of the needs of household, in total as well as those of each of the individual household members.
- **Understand what decisions are needed and when.** Keep a checklist of important decisions including timing and recourse for changing decisions, if necessary.
- **Don't forget about the need for help later in life.** Many households will need help because of health or financial issues.
- **Don't retire too early if the plan calls for more years of paid work.** Working longer can improve security in retirement.
- **How and when to claim benefits.** Explore options for the optimal time to begin claiming Social Security benefits, including the impact on pension and surviving spouse payments.

### TIPS FOR PLAN SPONSORS AND SERVICE PROVIDERS

- Include the impact of post-retirement risk issues and lessons from behavior finance when preparing retirement education and financial wellness offerings.
- To address risks, consider surveying employees for insight into their retirement preferences and needs.
- Encourage both pre-retirees and retirees to become familiar with how to calculate their financial needs in retirement and provide resources to help them.
- Consider offering products and benefits that address post-retirement risks and are more affordable than employees purchasing from other sources.

## Final Thought

The SOA is committed to research and consumer education designed to promote understanding of post-retirement risks and strategies for addressing them. Since this work began, the primary objective has been to increase stakeholder knowledge and provide research that will inform potential solutions for these issues. Other reports in this series provide a more in-depth look at selected issues described in this report.

# Appendix: More About the Research

The Society of Actuaries' Committee on Post-Retirement Needs and Risks has based its insights on robust research designed to increase understanding of the way Americans manage their finances post-retirement and to help improve the management of the risks.

The full reports from the Committee are available for download at the Society of Actuaries website: <https://www.soa.org/research/topics/aging-ret-res-report-list/>

The Committee's focus has been on exploring the perspective of the individual. This includes representation at all income levels, but with primary focus on the middle market.

The research approaches include:

- **Biennial risk surveys** – Surveys of the knowledge and attitude of Americans age 45-80, split between retirees and pre-retirees with respect to post-retirement risks and the process of retirement. Each report includes some common questions and several topics of emphasis selected for that survey, such as health and long-term care, women's issues, shocks, etc. Surveys conducted since 2001.
- **Focus groups and in-depth interviews** – Periodic projects targeted to specific subgroups and issues, to better understand retiree rationale, to supplement the surveys and also to help provide input into questions and structure of surveys. Projects conducted in 2005, 2013, 2015 and 2017.
- **Consumer Information** – Gaps in knowledge are a key finding of the research, so the Committee designed several publications that are designed to fill in gaps and provide helpful information for consumers and consumer-support services. These publications include *Managing Post-Retirement Risk: A Guide to Retirement Planning* (risk chart), *Managing Retirement Decisions* (a series of 12 shorter guides to specific decisions), and *Age Wise Infographics* on longevity-related issues. A new series starting with *Retirement Health and Happiness* provides information about Retirement Literacy.
- **Essays and papers** – These are monographs that include essays and papers on topics such as the *Financial Wellness Essay Collection*, *Diverse Risks Essay Collection* and *Managing the Impact of Long-Term Care Needs and Expense on Retirement Security*. These works reflect a range of perspectives from individual publishing authors who responded to calls for papers. Their ideas include solutions to some of the challenges raised by the research.
- **Other Research** – The Committee has conducted other projects, including a series on lifetime income, reports on financial advice, and discussions of retirement planning software. In addition to the direct work of the Committee, the SOA conducts other research related to these issues and there is work performed by related entities.



# References

## BIANNUAL RISK SURVEY SERIES

- *2015 Risks and Process of Retirement Survey: Key Findings and Issues, Spending Patterns and Debt*, Society of Actuaries, 2016
- *2015 Risks and Process of Retirement Survey: Key Findings and Issues, Shocks and Unexpected Spending in Retirement*, Society of Actuaries, 2016
- *Entire Risks and Process of Retirement Survey Series*

## FOCUS GROUPS AND IN-DEPTH INTERVIEWS REPORTS

- *Post-Retirement Experiences of Individuals Retired for 15 Years or More*, Society of Actuaries, 2016
- *The Decision to Retire and Post-Retirement Financial Strategies: A Report on Eight Focus Groups*, Society of Actuaries, 2013
- *Spending and Investing in Retirement: Is There a Strategy*, Society of Actuaries, LIMRA, and INFRE, 2006

## CONSUMER INFORMATION PUBLICATIONS

- *Managing Post-Retirement Risk: A Guide to Retirement Planning (Risk Chart)*, Society of Actuaries, 2011
- *Managing Retirement Decisions*, Society of Actuaries, various dates

## ESSAYS AND PAPERS

- *Managing Diverse Risks – Essay Collection*, Society of Actuaries, 2016
- *Financial Wellness Essay Collection*, Society of Actuaries, 2017
- *Managing the Impact of Long-Term Care Needs and Expense on Retirement Security Monograph*, Society of Actuaries, 2015

## PRESENTATIONS

- *Post-Retirement Needs and Risks: What Do We Really Know* (presentation decks for this topic and other presentations of Committee work are available on the website. They are updated periodically and tailored to different audiences.)

## OTHER

- “Health Care Costs for Couples in Retirement Rise to an Estimated \$260,000, Fidelity Analysis Shows”. (Downloaded on March 31, 2017)

*Note: The content of this research brief is a combination of the author's own ideas and findings drawn from the research described in the brief. The tips reflect the opinion of the author. The ideas and tips are not an opinion of the Society of Actuaries or any Committee thereof.*



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