SOCIETY OF ACTUARIES

Understanding Changes During Retirement: Results of Two Studies Webcast
April 2008

Anna Rappaport
Barbara Butrica
Ruth, Helman

Understanding Changes During Retirement: Results of Two Studies – An SOA Webcast

Ruth Helman
Research Director
Mathew Greenwald and Associates, Inc.

Anna Rappaport
Chairperson, Committee on Post-Retirement Needs and Risks
Society of Actuaries

Barbara Butrica
Senior Research Associate
The Urban Institute

April 23, 2008

Agenda

- Introduction and context
- What people say: Retirement risks
- What people say: Phases of retirement
- What people do: Activities of retirement
- What people say: Risk management in retirement
- The future, perspectives and recommendations

Agenda

- Introduction and context
- What people say: Retirement risks
- What people say: Phases of retirement
- What people do: Activities of retirement
- What people say: Risk management in retirement
- The future, perspectives and recommendations

Today's presentation

- Focus on
  - What People Say: 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
  - What People Do: Research from the Urban Institute – analysis of the HRS
  - Provide ideas for actuaries
  - Link to other research

POLLING QUESTION

- Post-retirement risks are important to me because…(Choose the most important issue for you.)

___ I assist employers in developing retirement programs
___ I work on products to meet these risks
___ I advise individuals on how to plan
___ I am personally concerned about them
___ I am helping/planning to help family members prepare
___ More people will need to deal with these risks in the future

4

Context

- Population aging
  – Longer life spans
  – Boomers reaching retirement age
- Continued pressure on spending
  – Government and private sectors
- Health care = big national issue
  – Uninsured growing
  – Less retiree health
  – Medicare: uncertain future + higher premiums

5

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

6

Context

- Shifting definitions of life cycle
  - – Third age
  - – Retirement – a series of stages
- Decreasing availability of lifetime benefits
  - – Social Security expected to replace less
  - – Fewer DB plans
- Challenges of individual responsibility

7

Agenda

- Introduction and context
- What people say: Retirement risks
- What people say: Phases of retirement
- What people do: Activities of retirement
- What people say: Risk management in retirement
- The future, perspectives and recommendations

8

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)

9

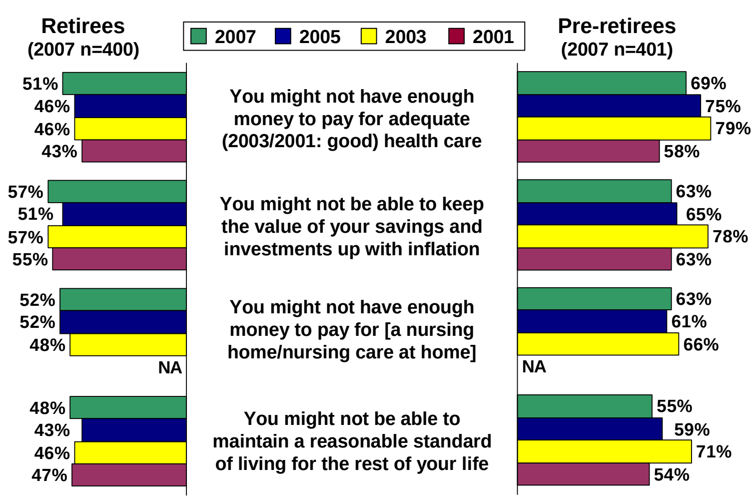
Overview: Public understanding

- 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

10

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

11

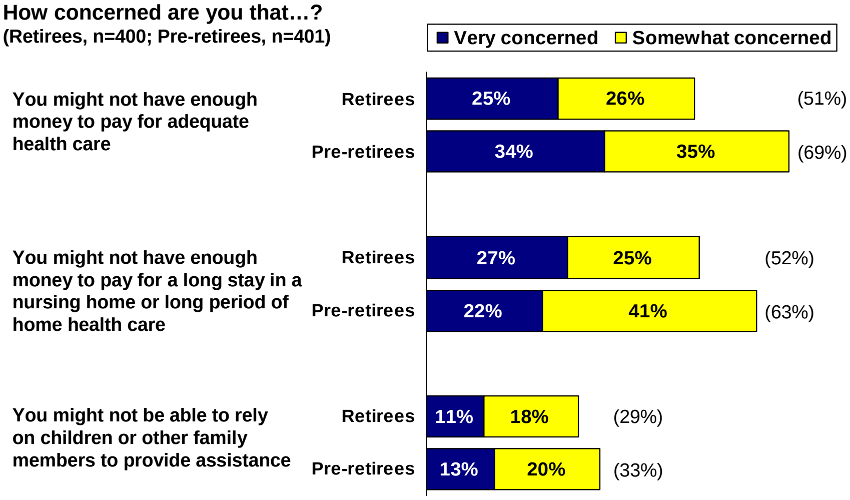
Comments on risk perception

- Retirees: not much change across studies
  - Concern about affordable health care increased
- Pre-retirees
  - Concern about many risks dropped back to 2001 levels
  - Less change for health care and long-term care
- Most important issues remain constant
  - Health care
  - Inflation
  - Long-term care
- Generally consistent with other research

12

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)



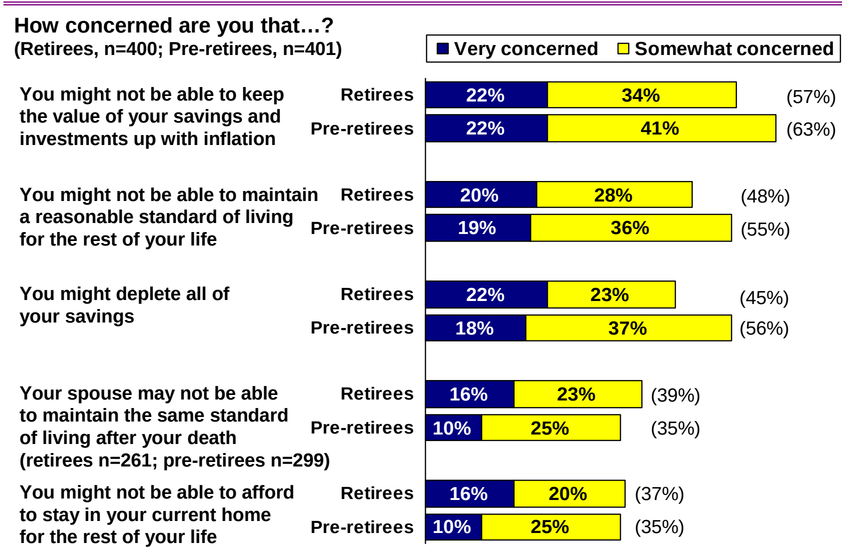
Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

13

Health and long-term care

- Major concern for retirees and pre-retirees
- Major decline in retiree health benefits
  - Big increases in employer health costs
  - Increases in premiums, co-payments where coverage is offered
- Very uncertain future

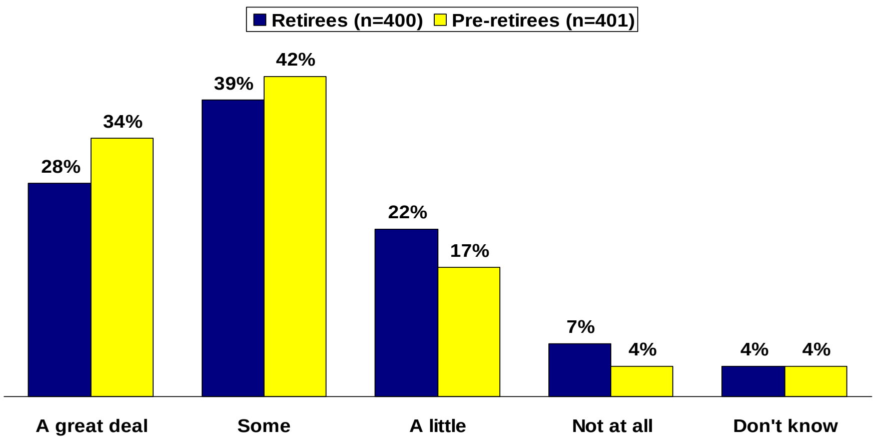
Inflation continues to be a top concern of retirees



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

Both groups are aware that inflation will affect their income needs

How much do you think inflation will affect the amount of money you will need each year in retirement?



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

16

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

17

Agenda

- Introduction and context
- What people say: Retirement risks
- What people say: Phases of retirement
- What people do: Activities of retirement
- What people say: Risk management in retirement
- The future, perspectives and recommendations

18

Phases of retirement

- Different way to think about retirement
- Can be defined by activity level, working or not working, age, health status
- Survey defines phases based on abilities and associated needs
- Planning often focused on first phase
- Pre-retirees expect to retire differently than current retirees
  - Ignoring premature retirement risk
  - Big group says retirement does not apply

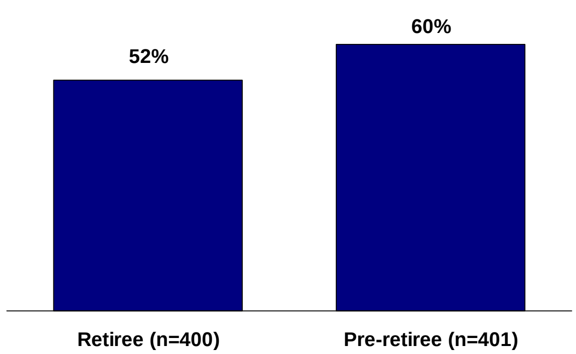
19

Phases 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

Only half of retirees have or expect an active phase of retirement

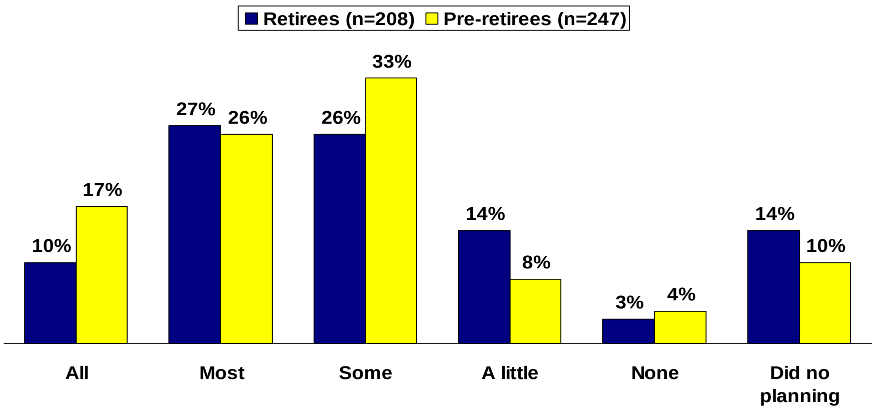
Do you think you will have a time in retirement when your abilities and needs are about the same as before you retired?



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

Some focus on the active phase of retirement when planning

About how much of your (retirement) planning would you say is/has been focused on this [active] part of retirement? **(Among those expecting to experience an active stage of retirement)**



Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey 22

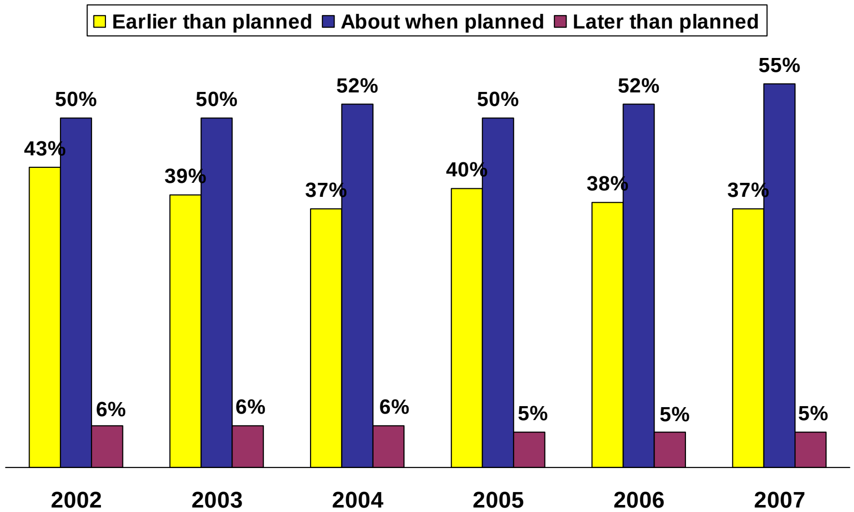
Pre-retirees expect to retire later than retirees, 1 in 3 say it doesn't apply

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

Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey 23

Many may be ignoring the possibility of involuntary early retirement

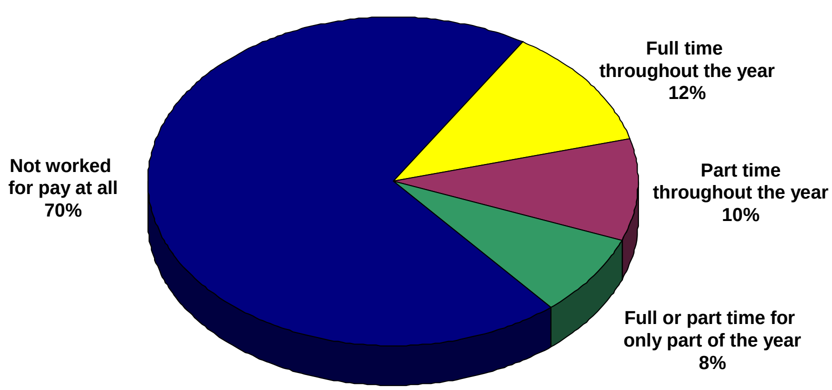


Source: EBRI/Greenwald, 2002-2007 Retirement Confidence Surveys

24

Phased retirement already exists informally

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

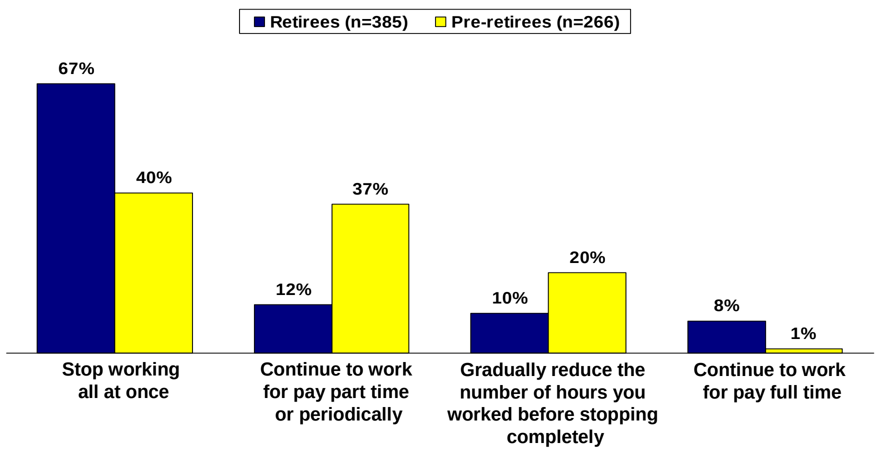


Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

25

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)**

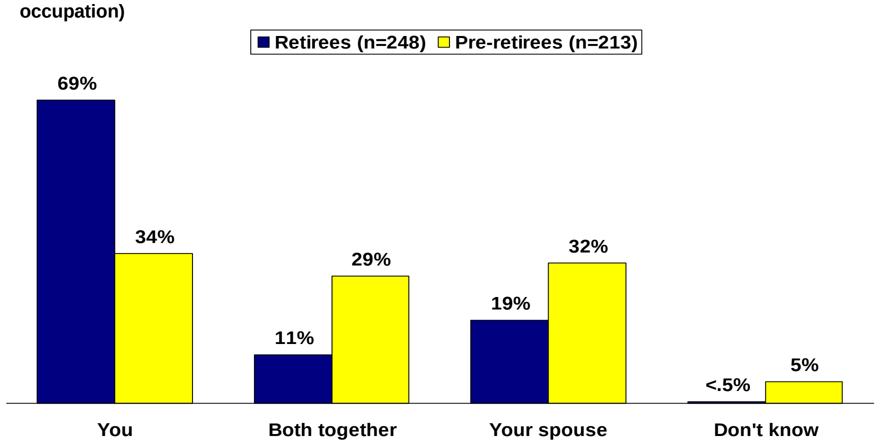


Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

26

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

27

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

28

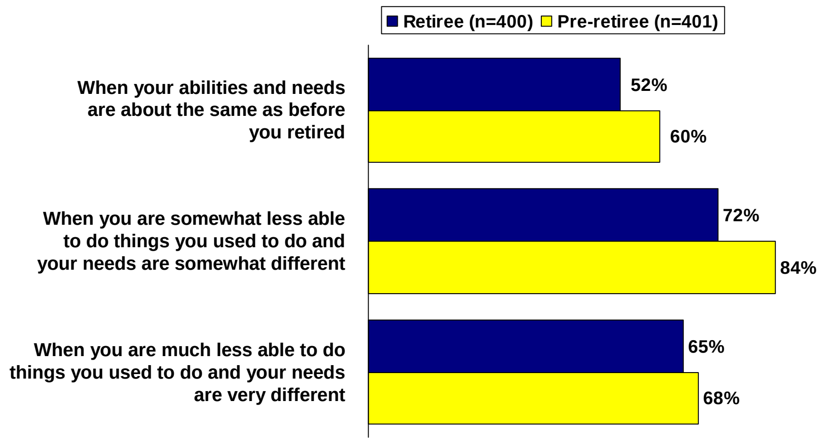
Will opportunities exist?

- Many people say they want to work in retirement
- Many people retire earlier than planned
- How many lose jobs?
- Displaced worker research shows it takes longer to get jobs at higher ages
- Other research indicates that older applicants get fewer call backs – is this is due to age discrimination?

29

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

Dependence on family or community services is expected to increase

I'm going to ask about some ways your needs might change during this time. Do you think you will need…? (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)
To modify your home or move to a home that is more livable	48	56	56	69
To depend on your family or community services for assistance	46	59	64	78
To pay someone to provide assistance	41	46	61	70
Nursing home or home health care	NA	NA	53	63

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

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

32

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)**

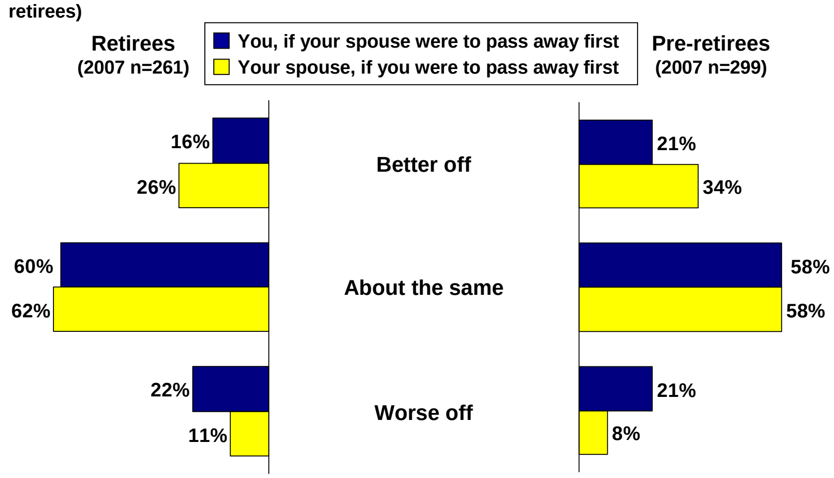
Top Mentions (multiple responses accepted)	Retirees (%) (n=330)	Pre-retirees (%) (n=353)
Save (more) money	16	37
Invest to make assets last	15	19
Buy long-term care insurance	11	8
Make home modifications	6	4
Cut back on spending	6	4
Stay healthy/improve health	4	4
Pay off debts	2	5
Nothing	28	15
Don't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

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

33

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

34

POLLING QUESTION

- Why might a widow be just as well off financially after widowhood?

____ Assets need to support only one person instead of two

____ Social Security continues to the widow based on the higher earner's benefit

____ Lower living costs

____ All of the above

____ Unlikely that a widow would be just as well off

35

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

Agenda

- Introduction and context
- What people say: Retirement risks
- What people say: Phases of retirement
- What people do: Activities of retirement
- What people say: Risk management in retirement
- The future, perspectives and recommendations

How Do Older Americans Spend Their Time?

by
Barbara Butrica
The Urban Institute

The research reported herein was supported through a grant from Atlantic Philanthropies as part of their Ageing Programme, which seeks "to bring about lasting improvement in the lives of older adults and to transform how ageing is viewed and older persons are treated by society."

What people say and what they do sometimes differs.

- Life changing events such as a job loss, the onset of health problems, and a death of a spouse can force people to change their plans.
- Even under the best of circumstances, reality may fall short of expectations.

39

Key Questions

- How many older Americans are engaged in productive activities?
- What activities do older adults engage in?
- How does engagement vary by age and other personal characteristics?

40

Data: Health and Retirement Study

- Nationally representative survey of older Americans.
- Began in 1992 with a sample of adults born between 1931 and 1941 (ages 51 to 61) and their spouses, who were re-interviewed every two years.
- Other cohorts were added to the survey design after 1992.

41

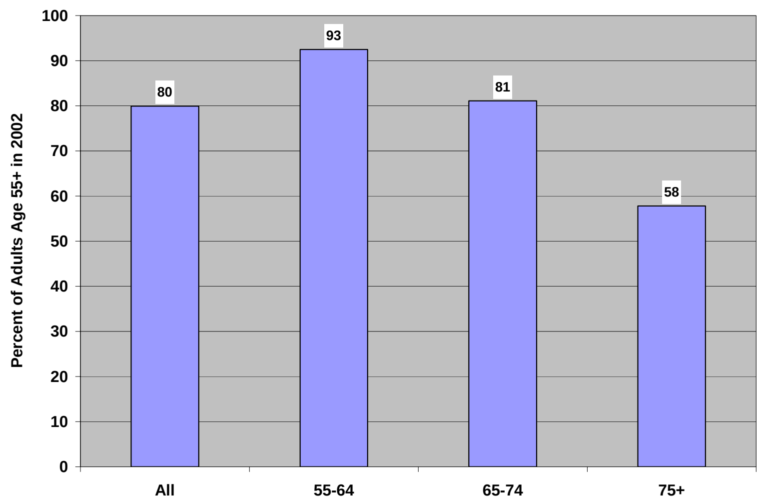
Data: Health and Retirement Study

- The 2004 HRS includes 20,129 respondents ages 51 and older.
- The HRS asks respondents about volunteering, parent care, child care, spouse care, work, time spent helping others, as well as their financial resources, religiosity, health status, and basic demographics.

What does productive aging include?

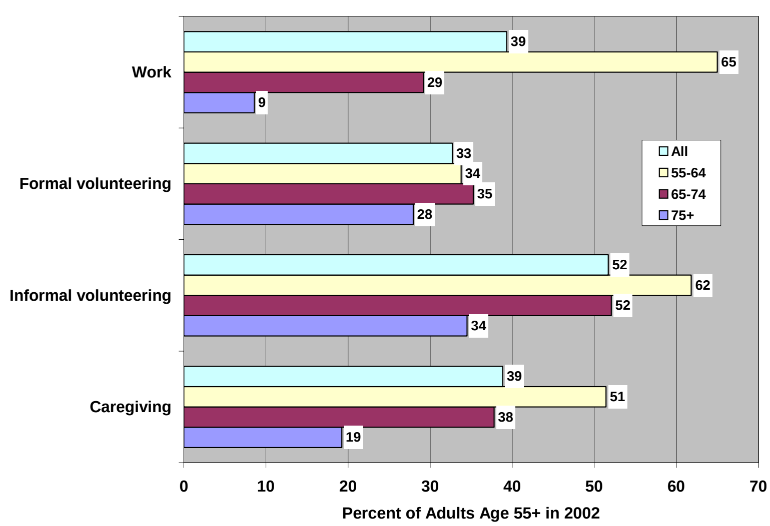
- Paid work
- Caregiving
- Formal volunteering
- Informal volunteering

Eight out of ten adults age 55+ engage in productive activities.



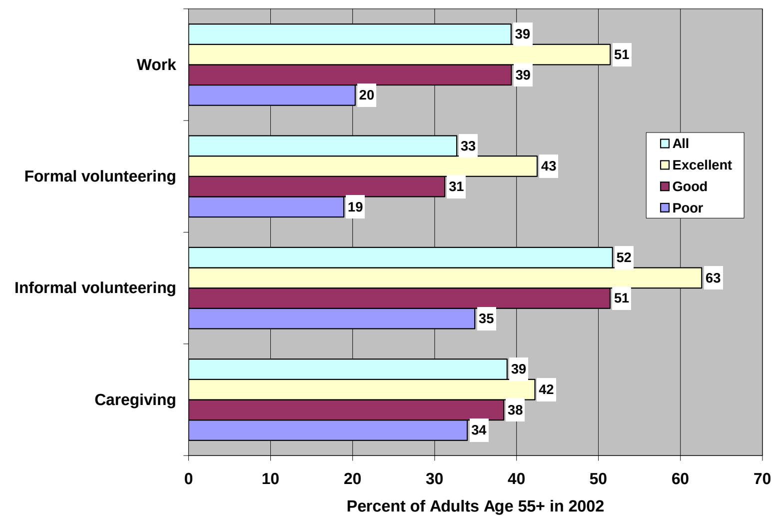
44

What older Americans do with their time varies by age...



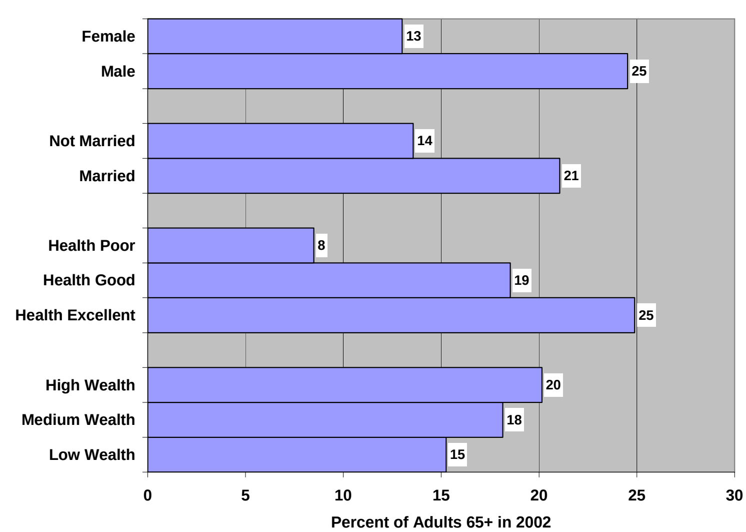
45

…and health status.



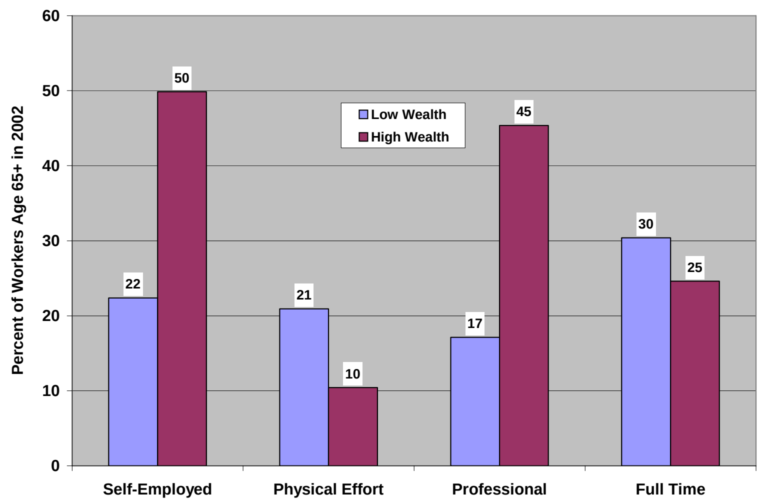
46

Who works past age 65?



47

Although the nature of work varies significantly by wealth…

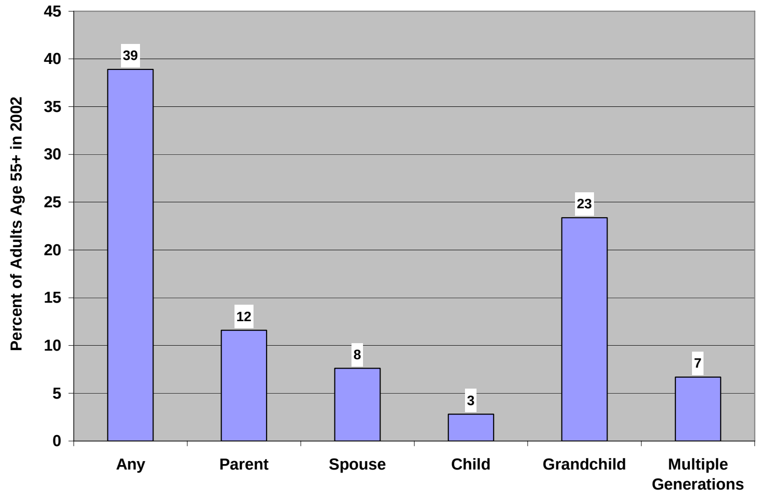


48

…satisfaction with work does not.

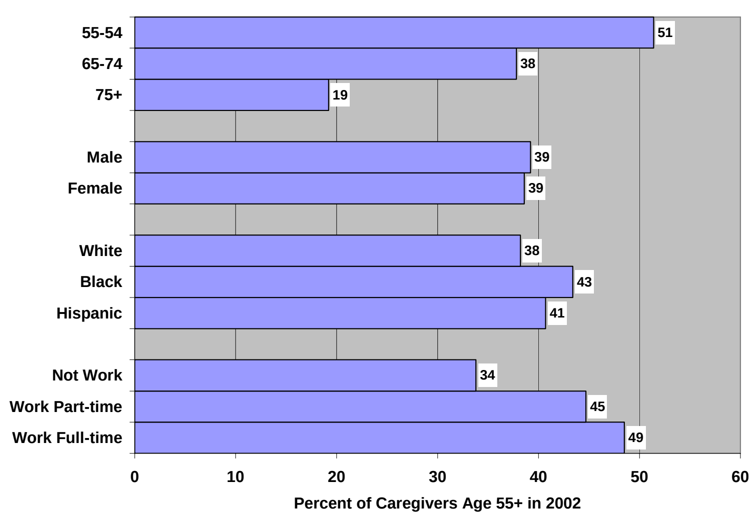
49

Nearly four out of ten adults age 55+ provide care for family members.



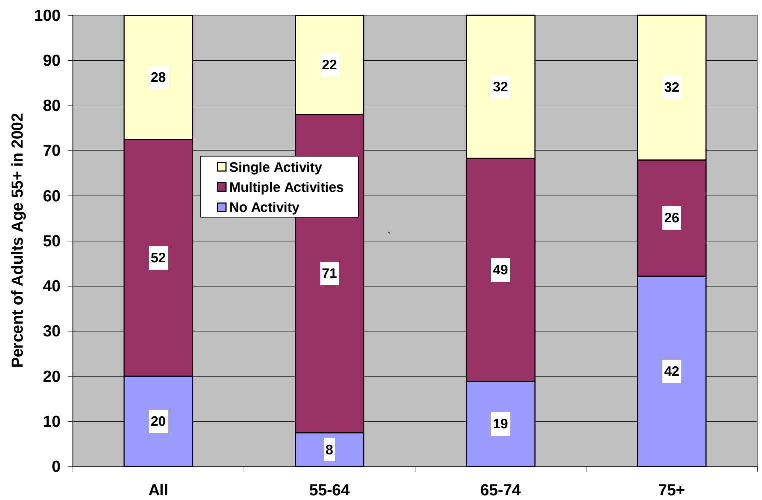
50

Who provides caregiving?



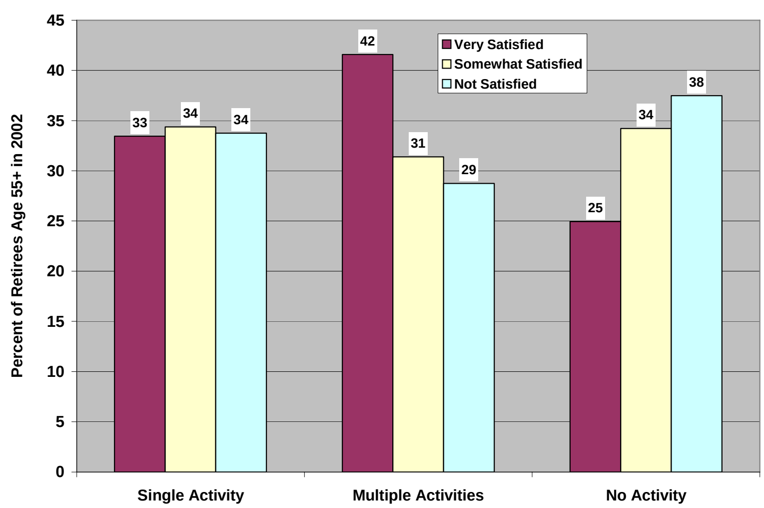
51

The majority of all older Americans engage in multiple productive activities.



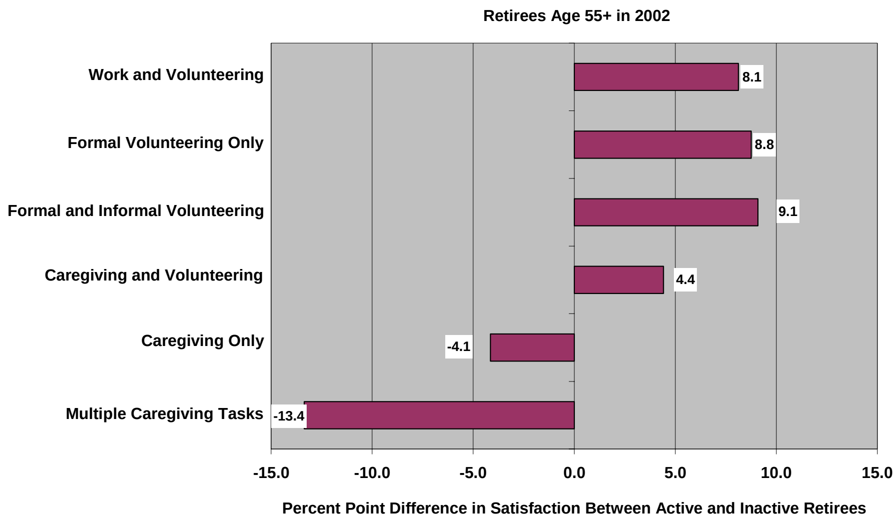
52

Seniors who are more active say they are more satisfied with retirement.



53

However, retirement satisfaction varies by the type of engagement.



54

Although how people spend their time may differ from their original plans

- Older adults' engagement has many benefits.
  - Economic value
  - Reduction in societal costs
  - Enhanced well being
- Engagement should be encouraged.
  - Changes in work (flexible hours, employee benefits)
  - Senior workforce development
  - Supporting volunteer opportunities
  - Increasing awareness

55

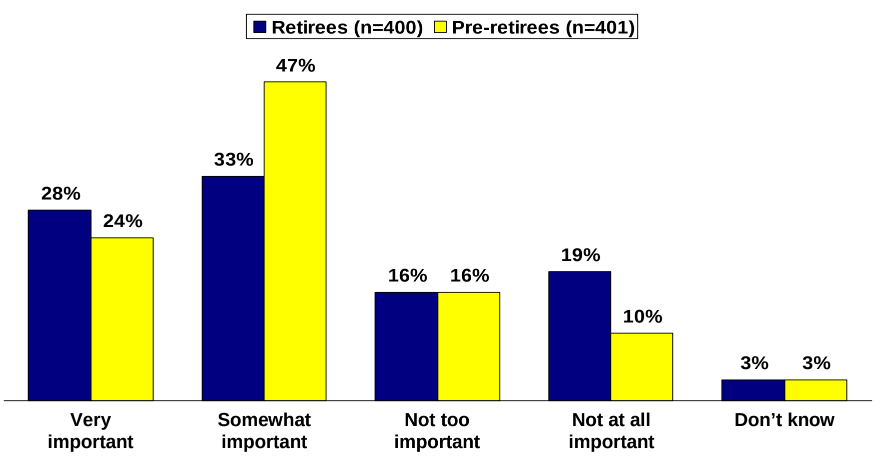
Agenda

- Introduction and context
- What people say: Retirement risks
- What people say: Phases of retirement
- What people do: Activities of retirement
- What people say: Risk management in retirement
- The future, perspectives and recommendations

56

Many downplay insurance as a risk-management tool in retirement

How important do you think it is to buy insurance products to help protect against risks related to retirement?

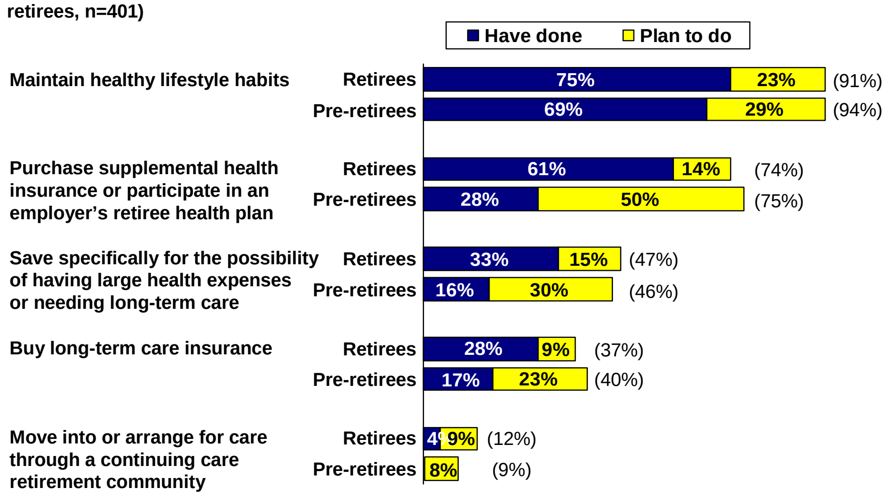


Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

57

Few turn to risk reducing products other than supplemental health coverage

To protect yourself financially, have you or do you plan to…? **(Retirees, n=400; Pre-retirees, n=401)**



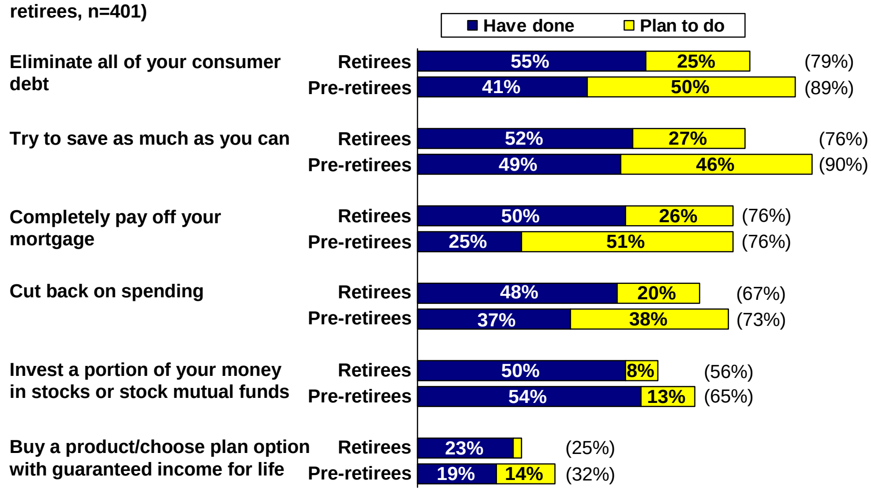
Note: Responses for categories may not sum to netted total due to multiple responses.

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

58

Instead, most try to manage risk themselves

To protect yourself financially, have you or do you plan to…? **(Retirees, n=400; Pre-retirees, n=401)**



Note: Responses for categories may not sum to netted total due to multiple responses.

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

59

Agenda

- Introduction and context
- What people say: Retirement risks
- What people say: Phases of retirement
- What people do: Activities of retirement
- What people say: Risk management in retirement
- The future, perspectives and recommendations

POLLING QUESTION

- The most important thing to do as we think about financial planning for a longer life is

___ Encourage longer term planning
___ Explore financial consequences of widowhood
___ Evaluate annuities to protect against longevity risk
___ Evaluate long-term care insurance
___ Avoid spending too much in early years of retirement

Issues for actuaries

- Actuaries understand risk issues better than public, media, employers, many leaders
- Actuaries responsible for asking right questions
  - What happens when employees can't retire?
  - Can current systems be modified to improve risk options?
    - Annuity options in 401(k) plans
    - Improved features to guard against inflation risk
    - Education about benefits of annuities/cost of lump sums
    - Facilitating employee purchase of LTC insurance
    - Facilitating employee purchase of affordable post-retirement health coverage
    - Flexible retirement options
- What products can better meet retiree needs?

62

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

63

Issues for actuaries

- Given how people make decisions, how do we help individuals better manage “pools” of assets? Examples:
  - Product design to tap into resources as needed (e.g. home equity products for LTC)
  - Education while employed about risk management issues will face in retirement
  - Insight into the potential changes and accompanying risk encountered as retirees progress through phases of retirement

64

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
- How should risk-protection systems change to meet the evolving work and retirement landscape?

65

Adding this to what we knew: Conclusions

- Misperceptions still exist after 20+ years of experience with 401(k) plans and IRAs
  - Experience with 401(k) plans show many people choose and stay in defaults
- Route to a strong retirement system is multi-pronged, and must include programs that work for those who will not take initiative
- Actions must consider DB plans, DC plans and Social Security
- More and better education is important, but cannot be the primary strategy
  - Different population segments respond well to different strategies
  - For some segments, education is not enough and will have little impact

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
- Best retirement programs are those that work without individual action
- Education is desirable, but there are limits on what it can accomplish

Appendix: More information

- Finances in retirement
- 2005 focus group findings
- Longevity issues
- Working in retirement
- More information on what people do

68

Appendix: More information

- Finances in retirement
- 2005 focus group findings
- Longevity issues
- Working in retirement
- More information on what people do

69

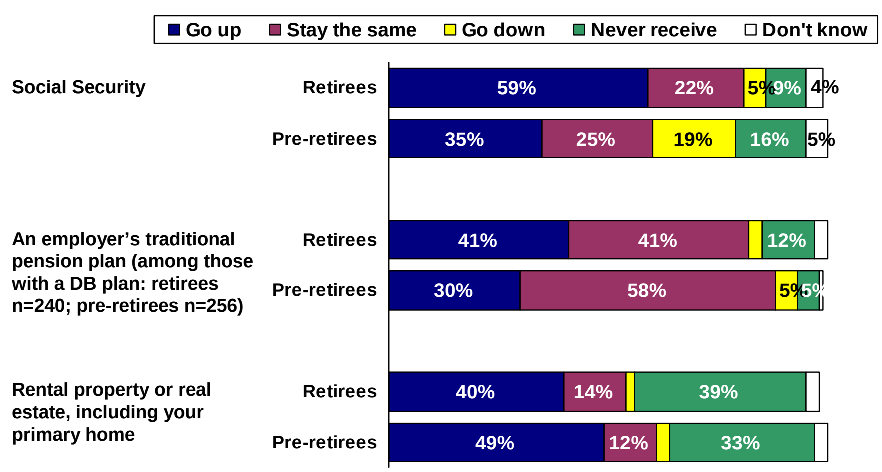
Finances in retirement

- Sources of retirement income
- Preferred payout methods for DC plans
- Consequences of delaying retirement

70

Retirees expect income from Social Security and property to increase

Please tell me if the amount you receive from this source will change during the course of your retirement. **(Retirees, n=400; Pre-retirees, n=401)**



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

71

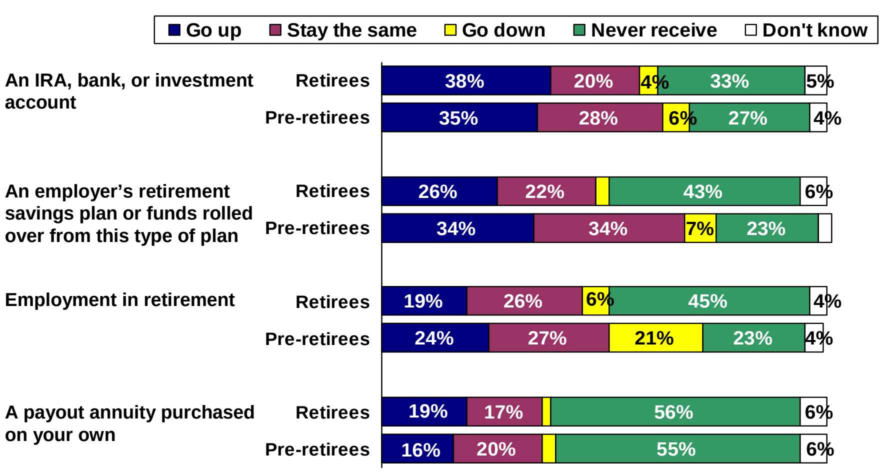
Home ownership

- Substantial asset for many Americans
- Can support retirement
  - Pay off mortgage
  - Use reverse mortgage
  - Sell house and move to less expensive housing
  - An emergency resource of sorts
  - Can turn into bequest

72

Very few expect income from investments to decrease

Please tell me if the amount you receive from this source will change during the course of your retirement. **(Retirees, n=400; Pre-retirees, n=401)**

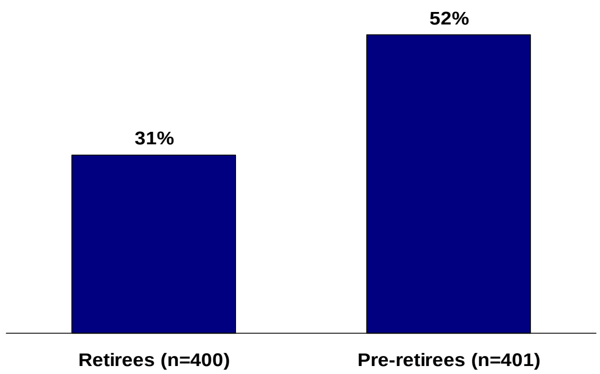


Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

73

Half of pre-retirees plan to draw down principal

Do you ever withdraw principal from savings or investments?/When you retire, do you ever plan to withdraw principal from savings or investments? (Percentage saying yes)

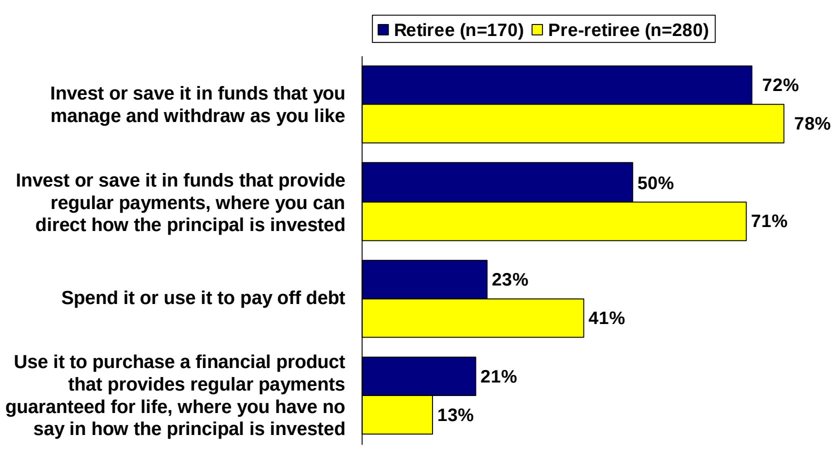


Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

74

DC participants prefer to rollover their money into funds they direct

What did you do/What do you think you will do with some or all of the money from the retirement plans? (Among those with a DC plan)

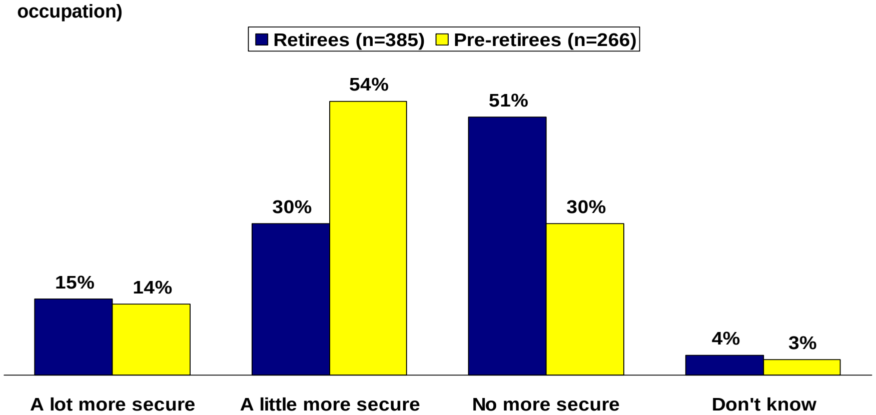


Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

75

Pre-retirees think delaying retirement would increase their security

Suppose you had retired three years later than you actually did/Suppose you were to retire three years later than you are currently planning. Do you think this would make your retirement financially…? (Among those providing retirement age from primary occupation)

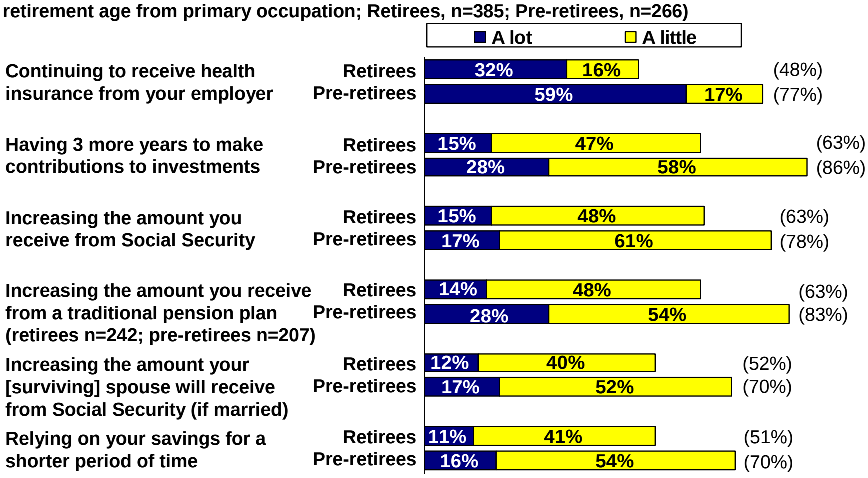


Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

76

A lot of the added security comes from continuing employer health

How much, if at all, would each of the following have increased your financial security in retirement [if you retired three years later]? (Among those providing retirement age from primary occupation; Retirees, n=385; Pre-retirees, n=266)



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

77

Appendix: More information

- Finances in retirement
- 2005 focus group findings
- Longevity issues
- Working in retirement
- More information on “What people do”

78

Methodology: Focus Groups on Financial Management in Retirement

- Sponsored by the Society of Actuaries
- Goal: understand decisions retirees make in retirement when they don’t benefit from annuitization
- Six focus groups (Hartford, Chicago, Phoenix)
- Participants
  - Ages 60-72
  - Retired two to ten years
  - Financial decision maker
  - Separate groups for married, single individuals

79

Methodology: Focus Groups on Financial Management in Retirement

- Financial criteria
  - Investments of $50,000 to $500,000 in 401(k) or other employer sponsored plan
  - Total retirement saving of $100,000 to $500,000 at retirement
  - $100,000 to $2 million in all investable assets (including real estate)
  - At least 25% of income comes from own savings
- Had hoped to interview individuals whose only annuity source was Social Security but weren't able to find them
  - The change in the retirement paradigm is coming, but it's not here yet

Focus Groups: Key concerns of retirees

- Participants were asked (in a group exercise) to rank six issues in order of level of concern
- Ordered ranking produced by groups (consolidated) in order of highest to lowest level of concern
  - Health care costs
  - Need for long-term care
  - Investment risk
  - Inflation
  - Outliving resources
  - Maintaining lifestyle

Source: SOA Focus Groups on Financial Management in Retirement

Focus Groups: Key concerns of retirees

- When we discussed these rankings with group, their classification was based on level of control
  - Risks classified as not in their control
    - Health care
    - long-term care
    - Inflation
    - Investment risk
  - Risk classified as in their control
    - Maintaining lifestyle
    - Outliving assets
- Biggest impact
  - Long-term care
  - Health care

Source: SOA Focus Groups on Financial Management in Retirement

Focus Groups: Low concern about longevity

- Focus group findings similar to survey results
  - Most underestimate life expectancy significantly
    - Few think they will reach 90s
  - Most base life expectancy estimates on family history
  - Low fear of outliving assets
    - Expect that living expenses can be reduced if necessary
  - Concern about longevity lowest for those with traditional pensions

Source: SOA Focus Groups on Financial Management in Retirement

Focus Groups: Managing assets

- Managing "pools" of money is done informally
  - Few have a pool of assets, or cushion, set aside for emergencies
  - Almost all have one pot of money and manage as they go
- No plan for setting spending
  - It is hard not to spend a lot, although many of these retirees are "depression babies" and know how to save
  - "Automatically" know what you can spend
  - Most do not spend a set amount, they spend extra on a regular basis and make withdrawals as needed

Source: SOA Focus Groups on Financial Management in Retirement

Focus Groups: Managing assets

- No plan for managing asset balance
  - None have a goal for how much to have in a set point in the future
  - Most track assts every quarter
  - Need to periodically re-evaluate the situation, they will know when they have to make a change
  - Many hope to maintain principal until their early 70s
    - This is mentioned in the same breath with the IRS age 70½ distribution requirement
- Sometimes limited communicated between husband and wife
  - In some families, one worries and the other doesn't

Source: SOA Focus Groups on Financial Management in Retirement

Focus Groups: Annuities and other strategies

- Annuities
  - Few have annuities, although many had other annuitized sources other than Social Security
  - Understanding of annuities low, lower for immediate annuities
  - Most think annuitization is a bet and they do not want to bet against insurance companies
  - Many think they can get better investment returns than the payouts in immediate annuities
- There is resistance to use other risk reducing mechanisms in retirement
  - Many like long-term care insurance
  - Few have it
- There is resistance to spending money to protect against the risk of needing long-term care or living longer than average

Source: SOA Focus Groups on Financial Management in Retirement

Focus Groups: Decision to retire

- Most retired before age 62
- A number were burned out
- Some were offered packages
- Many retired before they planned to
- Key learnings
  - Informal approach to retirement
  - Very “intuitive” sense of financial needs

Source: SOA Focus Groups on Financial Management in Retirement

Focus Groups: Informal approach

- Informal approach to retirement
  - Most had a good sense of their living expenses
    - Not exact figures, or projections how those might change
  - Determined that their Social Security, pension and income from investments could provide for their monthly expenses
- Minority used of financial advisor to calculate needs
  - Most went to an advisor after they decided to retire to “check in”
- Decision to retire generally made right before retirement
  - None had targeted accumulations of savings
  - None had targeted retirement date

Source: SOA Focus Groups on Financial Management in Retirement

Focus Groups: Intuition reigns

- Gave retirees “scenarios” to test how they determined if someone could afford to retire
- Process effective, but intuitive
  - Calculate monthly expenses
  - Add up monthly benefits from Social Security and pension plan
  - Derive shortfall
  - Add up investable assets
  - Multiply investable assets by approximately 6% to derive expected investment income
  - Retirement feasible if expected income fills shortfall

Source: SOA Focus Groups on Financial Management in Retirement

Appendix: More information

- Finances in retirement
- 2005 focus group findings
- Longevity issues
- Working in retirement
- More information on “What people do”

90

Longevity

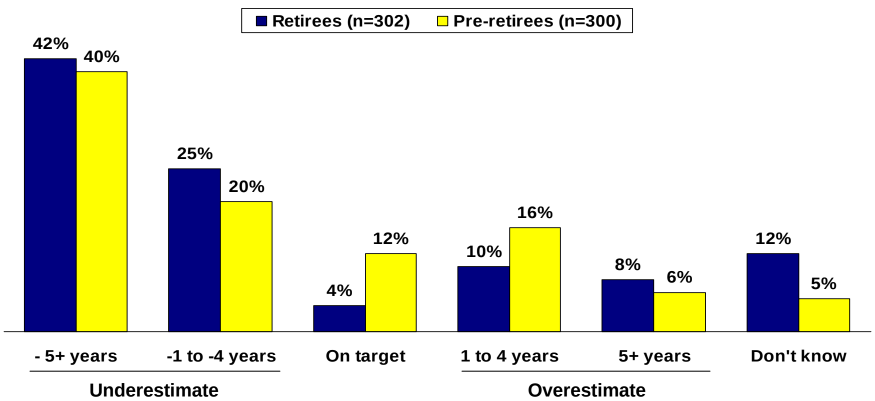
- Potential variability of life expectancy beyond grasp of most people
- Recent and continuing gains in life expectancy aren’t factored into
  - Design of retirement system
  - Personal life expectancy estimates
    - More influenced by parents, family history
- Result:
  - More people underestimate than overestimate
  - Planners often still focus on average
- Big problem for future

91

At least 6 in 10 underestimate average life expectancy

Until what age do you think the average person your age and gender can expect to live?

Difference Between Population Life Expectancy[1] and Respondent Estimate



[1]Based on UP94 Life Tables projected to 2005.

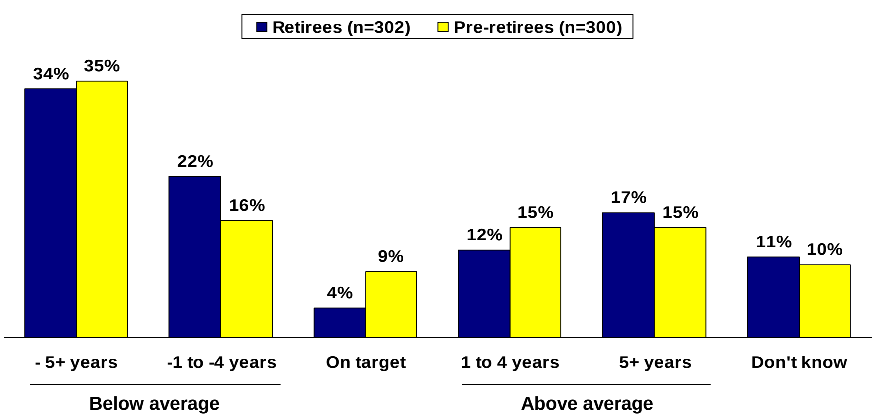
Source: Society of Actuaries, 2005 Risks and Process of Retirement Survey

92

As a result, while half cite personal life expectancies below average . . .

Until what age do you think that you, yourself, can expect to live?

Difference Between Population Life Expectancy[1] and Personal Life Expectancy



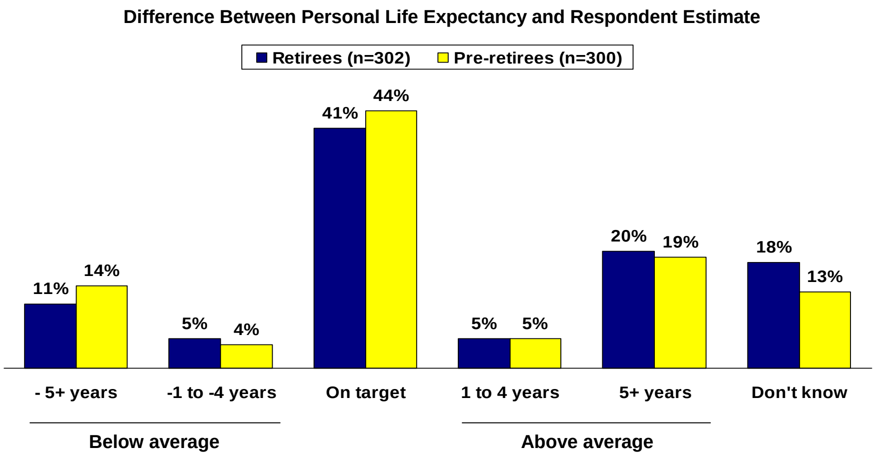
[1]Based on UP94 Life Tables projected to 2005.

Source: Society of Actuaries, 2005 Risks and Process of Retirement Survey

93

… most think their personal life expectancies are average or longer

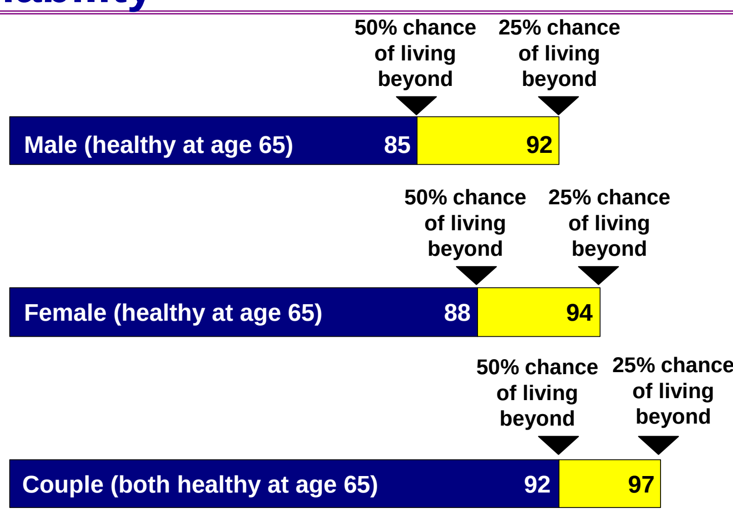
Until what age do you think the average person your age and gender can expect to live?
Until what age do you think that you, yourself, can expect to live?



Source: Society of Actuaries, 2005 Risks and Process of Retirement Survey

94

Sample illustration: Life expectancy variability

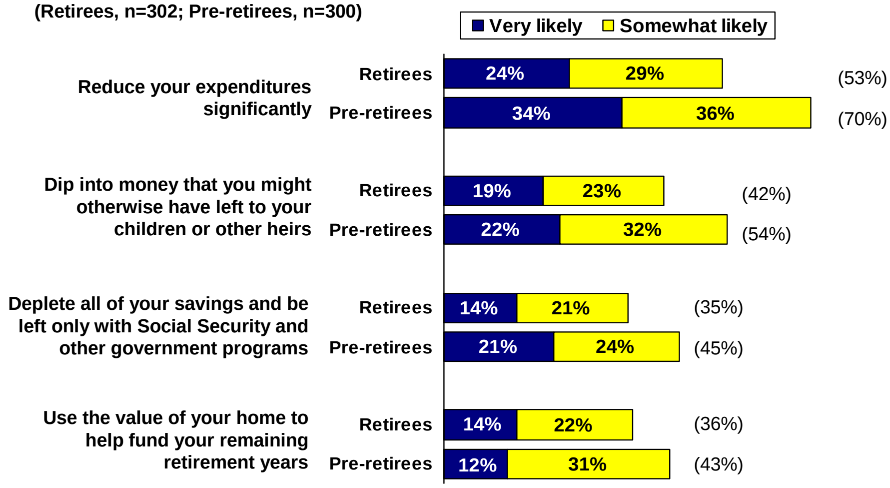


Source: MetLife (life expectancies from annuity tables)

95

Few understand financial consequences of outliving assets

If you (and your spouse) were to live five years longer than expected, how likely do you think it is that you would have to do each of the following?
(Retirees, n=302; Pre-retirees, n=300)



Source: Society of Actuaries, 2005 Risks and Process of Retirement Survey

96

Issues for actuaries

- Many users don’t understand variability in life expectancy
- Issues for individuals in dealing with longevity aren’t the same as dealing with longevity risk in aggregate
  - Actuaries should consider this when
    - Designing individual product solutions
    - Consulting to plan sponsors (employee communications)
  - Particular challenges to personal actuaries

97

Appendix: More information

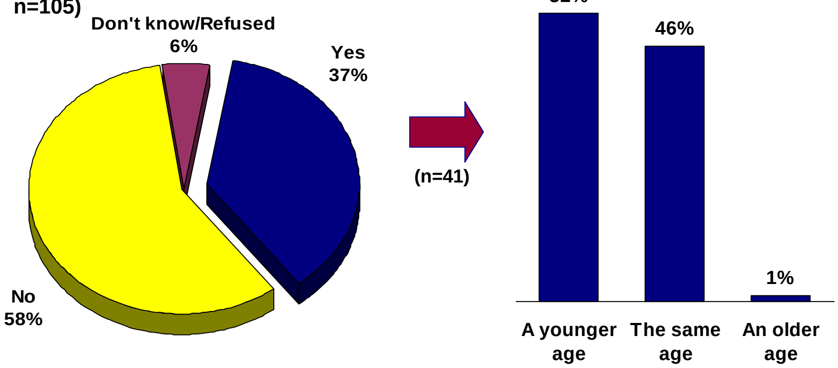
- Finances in retirement
- 2005 focus group findings
- Longevity issues
- Working in retirement
- More information on "What people do"

98

Many pre-retirees would alter plans if could collect pension during phased retirement

If [the] law were changed so that you could cut back on your working hours and … start collecting some of your pension, would this change your plans for retirement? (Among those expecting to receive pension from last employer, n=105)

If yes: Do you think you would start to retire at . . . ?

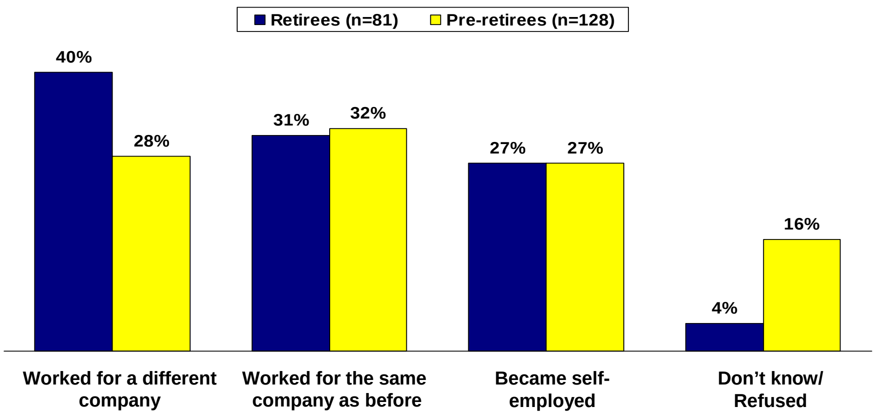


Source: Society of Actuaries, 2005 Risks and Process of Retirement Survey

99

1 in 3 continue to work for the same company as before retirement

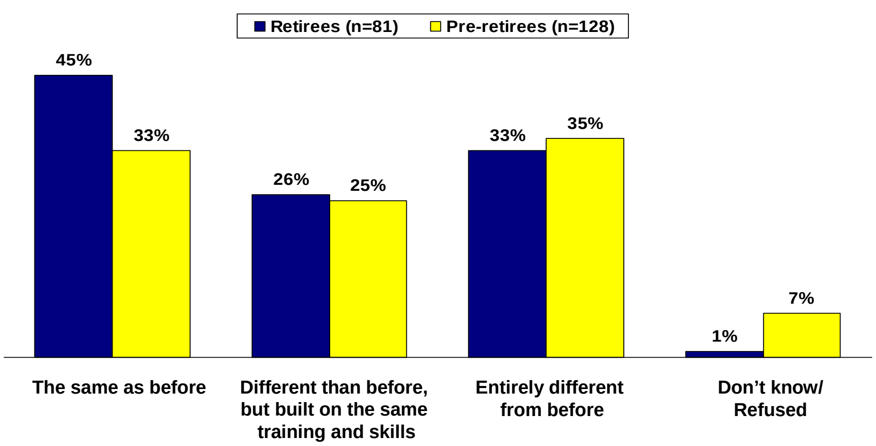
When you worked in retirement, which statement comes closest to describing what you actually did?/After you retire, do you think you will . . . ? (Among those continuing to work in retirement)



Source: Society of Actuaries, 2005 Risks and Process of Retirement Survey **100**

A majority use training and skills from their primary occupation

When you worked in retirement, which statement comes closest to describing what you actually did?/Do you think the work you do for pay in retirement will be . . . ? (Among those continuing to work in retirement)



Source: Society of Actuaries, 2005 Risks and Process of Retirement Survey **101**

Appendix: More information

- Finances in retirement
- 2005 focus group findings
- Longevity issues
- Working in retirement
- More information on “What people do”

102

References on “What People Do”

- Butrica, Barbara A. and Simone G. Schaner. 2005. “Satisfaction and Engagement in Retirement.” *Perspectives on Productive Aging* No. 2. Washington, D.C.: The Urban Institute.
- Butrica, Barbara A., Simone G. Schaner, and Sheila R. Zedlewski. 2006. “Enjoying the Golden Work Years.” *Perspectives on Productive Aging* No. 6. Washington, D.C.: The Urban Institute.
- Hurd, Michael and Susann Rohwedder. 2007. “Time-Use in the Older Population.” Working Paper No. WR-463. Santa Monica, CA: RAND.
- Johnson, Richard W. and Simone G. Schaner. 2005. “Many Older Americans Engage in Caregiving Activities.” *Perspectives on Productive Aging* No. 3. Washington, D.C.: The Urban Institute.
- Johnson, Richard W. and Simone G. Schaner. 2005. “Value of Unpaid Activities by Older Americans Tops $160 Billion Per Year.” *Perspectives on Productive Aging* No. 4. Washington, D.C.: The Urban Institute.
- Krantz-Kent, Rachel and Jay Stewart. 2007. “How Do Older Americans Spend Their Time?” *Monthly Labor Review*. 130(5): 8-26.
- Zedlewski, Sheila R. and Simone G. Schaner. 2005. “Older Adults’ Engagement Should Be Recognized and Encouraged.” *Perspectives on Productive Aging* No. 1. Washington, D.C.: The Urban Institute.
- Zedlewski, Sheila R. and Simone G. Schaner. 2006. “Older Adults Engaged As Volunteers.” *Perspectives on Productive Aging* No. 5. Washington, D.C.: The Urban Institute.

103

Other Data Sources

- American Time-Use Survey (ATUS)
  - Nationally representative of the noninstitutionalized population age 15 and older. Provides age detail for respondents up to age 80.
  - Respondents sequentially report their activities for a 24-hour period.
  - Also includes information about household composition, demographics, and labor force status.
- Consumption and Activities Mail Survey (CAMS)
  - Nationally representative of noninstitutionalized population age 51 and older.
  - Respondents report how much time they spent on 31 activities over the last week or last month.
  - Can be merged with the core HRS to get demographic, economic, and health information.

104

More information on "What People Do" Findings from other studies

- Krantz-Kent and Steward, 2007 (ATUS)
  - Most age differences in time use were due to differences in employment status.
  - The average day of non-workers is similar to the average non-work day of employed persons.
  - Hours working declined with age, but most of this decline was due to a shift from full-time to part-time employment.
  - Men take part-time jobs to make a gradual transition into full retirement. Women are more likely to work part-time at all ages.

105

More information on “What People Do”
Findings from other studies

- Hurd and Rohwedder, 2007 (CAMS)
  - CAMS and the ATUS show similar levels of time-use by category and similar variation by age.
  - Total hours on all activities vary substantially by health status and age.
  - Hours worked are much lower for those in poor health than for those in excellent health.
  - In contrast, time spent on personal care, such as treating a medical condition, are higher for those in poor health than for those in excellent health.

106

SOA Recently Published Retirement Research

RETIREMENT RISK REPORTS

The Society of Actuaries (SOA) recently published several new retirement risk research reports.
All reports are available at
http://www.soa.org/research/pension/research-post-retirement-needs-and-risks.aspx

The ***2007 Risk and Process of Retirement Survey,*** in cooperation with Mathew Greenwald & Associates and EBRI, reports the results of this 2007 survey of retirees and pre-retirees. The survey explored retirees' and pre-retirees' awareness of retirement risk issues and strategies for dealing with them. The report is the fourth in a series. Previous reports in the series can also be found on the Web page.

Spending and Investing in Retirement—Is There a Strategy? presents the results of six focus groups composed of retirees ages 60-72 on their experiences of managing assets in retirement. The focus groups examined how individual retirees make decisions about financial management of assets.

SHORT REPORTS FOCUSING ON SPECIFIC RETIREMENT RISK ISSUES

A set of reports highlighting key findings from the 2005 Risk and Process of Retirement Survey. A new set of reports highlighting 2007 findings is planned for the spring of 2008.

Phased Retirement and Planning for the Unexpected highlights what we know about the evolving process of retirement. It weaves in discussions of employment opportunities for tomorrow's seniors and barriers to phased retirement today.

How Americans Understand and Manage their Retirement Risk explores what retirees and pre-retirees understand about various retirement risks and risk management strategies. Risks considered include investment, inflation, health care and longevity.

Longevity: The Underlying Driver of Retirement Risk focuses on retiree knowledge about increasing lifespans, the variability of lifespan, misunderstandings of personal lifespans, and strategies to insure against outliving assets.

The Impact of Retirement Risk on Women focuses specifically on how retirement risks and understanding thereof vary for men and women, and considers the special risks women face in retirement, due primarily to lesser financial resources and longer lifespans.

PUBLIC MISPERCEPTIONS ABOUT RETIREMENT SECURITY

Also on the same Web page, two reports examining ***Public Misperceptions about Retirement Security*** are available for downloading. The reports explore what the public knows about retirement security and where significant gaps exist. The latest report suggests how various stakeholders can help ensure a secure retirement for future retirees.

FUTURE VISIONS OF RETIREMENT

Reenvisioning Retirement in the 21st Century Monograph is a collection of papers that were presented at the symposium with the same title in Washington, D.C. on May 3-4, 2006. The papers explore new visions for retirement income plans in the 21st century. The papers can be found in the retirement monographs section of the SOA Web site at http://www.soa.org/.

Retirement 20/20 is a recently initiated strategic project that has been undertaken by the SOA's Pension Section. The motivation for the project is to look at where we are today, determine what kind of retirement systems we need for tomorrow and help build them. More information can be found at http://www.retirement2020.soa.org/.

Actuaries
Risk is Opportunity.®