SOCIETY OF ACTUARIES®

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.

Aging and Retirement

The Journey Through Retirement

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The Journey Through Retirement

Managing retirement security in the U.S. has been increasingly challenging for all stakeholders. Major factors contributing to these challenges include people living longer than did prior generations, an increasing older-age population, the shift from defined benefit to defined contribution plans, and significant gaps in financial literacy. In 2020, the COVID-19 pandemic created a new set of challenges and uncertainties. These factors contribute to growing concern about how well Americans will fare in old age and the adequacy of their retirement security.

The Society of Actuaries' (SOA) Aging and Retirement Strategic Research Program (the SOA program) established in 2018 builds on nearly 20 years of post-retirement–focused research designed 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 SOA report focuses on findings about retirement expectations and the post-retirement experiences of individuals as they move through retirement. The content is based on a series of focus groups and in-depth interviews, plus biennial surveys of retirees and individuals nearing retirement. Both retirees and adult children have participated in these interviews and surveys. The content also reflects other research on how people fare throughout retirement and links in some national data on assets and spending. This report highlights key findings that reflect 20 years of SOA post-retirement research and related SOA work, together with guidance about where to find more information. It offers commentary about how COVID-19 may change the situation moving forward.

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.

In This Report

This report includes references to the following Society of Actuaries program research and initiatives:

Risk Surveys

2001–2019 Risks and Process of Retirement Survey. Each biennial survey includes topics of special focus.

2007 Risks and Process of Retirement Survey: Key Findings and Issues: The Phases of Retirement and Planning for the Unexpected

Post-Retirement Experiences of Individuals 85+ Years of Age: A Report of Surveys of Individuals Ages 85 and Over and Adult Children With Parents 85 and Over, Society of Actuaries, 2018

Focus Groups and In-Depth Interviews

The Decision to Retire and Post-Retirement Financial Strategies: A Report on Eight Focus Groups, Society of Actuaries, 2013

Post-Retirement Experiences of Individuals Retired for 15 Years or More, Society of Actuaries, 2016

Post-Retirement Experiences of Individuals 85+ Years Old: A Report on Sixty-two In-Depth Interviews in the United States and Canada, Society of Actuaries, 2017

Life Journey Study: A Report on 40 In-Depth Interviews in the United States and Canada With Adult Children of Recently Deceased Parents, 2019

Committee Conversations

A Conversation on Dementia and Cognitive Decline, 2019

Consumer Information

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

Summary Reports on Prior Research

Shocks and the Unexpected: An Important Factor in Retirement, December 2017

How People Plan for Retirement, February 2018

Women and Post-Retirement Risks, April 2018

Retirement Experiences of People Age 85 and Over, February 2019

References Related to COVID-19

Impact of COVID-19 on Family Dynamics in Retirement, Society of Actuaries 2020

Impact of COVID-19 on Senior Housing and Support Choices, Society of Actuaries 2020

Impact of COVID-19 on Aging and Retirement Essay Collection

- *Will Retirement Change Due to COVID-19?*, by Linda Koco
- *Are CCRCs and Senior Housing Communities a Good Choice? COVID-19 and Risk in Arrangements for Senior Housing and Support*, by Anna Rappaport

Introduction

The journey through retirement is a story of change. The big picture has been described as consisting of three periods: go-go, slow-go and no-go. They last for a different number of years for different households. These phases offer an oversimplified description of what happens to individuals. The SOA has conducted research at various points during retirement, which can be overlayed with general ideas about these periods.

SOA post-retirement research by retiree stage includes biennial surveys of pre-retirees and retirees (2001–2019), focus groups with relatively recent retirees (2013), focus groups with individuals retired 15 years or longer (2015), in-depth interviews with caregivers of individuals retired 15 years or longer (2015), in-depth interviews with individuals age 85 and over (2017), surveys of individuals age 85 and over and of adult children of individuals age 85 and over, and in-depth interviews with children of deceased retirees who died at late ages (2018). Each of these surveys includes some core questions and topics of major focus. The topics of major focus change from survey to survey with some topics repeated. The research with pre-retirees and recent retirees is largely about their plans, whereas the research with households retired 15 years or longer offers perspective on how people are doing and what they have done in retirement, as well as what they are planning to do. The focus groups and interviews have been used to inform the surveys and learn more about how people experience retirement at different stages of retirement. The consumer research is supplemented by calls for essays, special research reports and committee conversations. Each step of the research was designed to consider what already had been learned and to add to the knowledge base. This report will look at the journey through retirement in two different ways: what we heard linked to the time since retirement and highlighting what we learned on key topics.

In addition to changes that happen to individuals, disruptions occur that happen to society as a whole or to all of society in a limited area. Such types of disruptions would include events such as major fluctuations and volatility in the economy, pandemics, political disruption and climate change. Within the U.S., the major disruptions of recent years that have had a substantial impact on retirement security are the Great Recession (2008) and the COVID-19 pandemic (2020). These events affect the retirement journey for entire cohorts of people including retirees, and they can affect it for people nearing retirement when the event occurs.

HOW TO ACCESS THE RESEARCH

The full reports from the work of the Committee can be downloaded from the Aging and Post-Retirement Research page on the SOA website at ***https://www.soa.org/research/topics/aging-ret-res-report-list/.***

A NOTE ON COVID-19

The COVID-19 pandemic that started in the U.S. in early 2020 disrupted the lives of Americans and most workplaces. On a short-term basis, it completely changed the day-to-day lives of retirees in all phases. It is expected that vaccines will be generally available and widely distributed in 2021 and that life will move to a “new normal.” It seems likely that many things may be different in the future, but at this point, we know the questions and the short-term impact, but not the answers or longer-term impact. Throughout this report, COVID-19 issues will be noted with questions about the future. The SOA issued a series of reports on COVID-19 and retirement-related matters. This report was drafted in December 2020, and the discussion reflects the situation at that time.

A NOTE ON SAMPLING* USED FOR SOA'S CONSUMER RESEARCH

Here are the parameters:

- The Risk Survey series should be representative of the general population.
- The research groups for the focus groups and in-depth interviews were selected among resource-constrained individuals, where financial assets were limited to an amount less than $400,000. Wealthier respondents were not represented. In some of the studies, additional limits were imposed to promote understanding of the issues faced by a lower-asset population.
- The survey research covered the U.S. only, and the focus groups and in-depth interviews covered the U.S. and Canada.
- Strategies were included to provide for representation of people in poor health. The focus groups of retirees retired 15 years or more were supplemented by in-depth interviews with adult children of parents with caregiving needs in order to include this group. The age 85 and over research included two surveys: one of individuals age 85 and over and one of adult children with parents in the group to be sure to get representation of people who were unable to personally participate.

**This discussion applies to the surveys and the in-depth interviews conducted in the study for the SOA by Mathew Greenwald and Associates. The informal interviews done at various times were not subject to such limitations.*

The Big Picture

In this section, we will examine the three phases of retirement and what changes during retirement. We will then review studies at three different times in retirement and discuss how they link together.

THREE PHASES OF RETIREMENT

We can think about retirement in three phases: go-go, slow-go and no-go. The 2007 Society of *Actuaries Risks and Process of Retirement Survey: Key Findings and Issues: The Phases of Retirement and Planning for the Unexpected* developed information about the three phases and provided survey results indicating the extent to which people expected to experience the three phases, how they were planning for them, and how they expected them to impact retirement spending. Not everyone will experience all of the phases, and their length varies by individual.

Phase One: Go-go

Phase One is the most active phase of retirement. About half of the retirees and 60% of the pre-retirees in the 2007 survey expected to experience Phase One during retirement. Retirement may be voluntary, but for some it may occur for reasons beyond their control. For those fortunate to retire in good health and maintain it, the first phase of retirement could last many years. For couples, the period of Phase One will be easier if both are in good health and share interests in similar activities. Some view this period as a chance to fulfill their dreams, particularly if retirement was by choice. Retirees entering this phase may define retirement based on whether or not they are collecting a pension, leaving a long-term job or moving to a location of choice. During this phase, the physical and mental capability of a retiree or retired couple is essentially the same as before retirement.

Engagement in paid work and/or volunteering often occur in this phase, although the nature of the paid work is often on a part-time basis or through self-employment. Work during this phase may utilize established skills, or it may involve pursuing new areas—often pursuing a dream that was not possible before retirement. In the latter situation, work in retirement and leisure may often become practically indistinguishable. On the other hand, such work may also be a means to securing needed health insurance as well as other benefits and additional income, but may provide little in the way of self-fulfillment.

Meeting dreams may include travel, hobbies, time with family and work. Travel may be one of the major activities pursued, especially for those with sufficient resources. This may include adventure travel to exotic locations or even living abroad.

For some retirees, Phase One is a chance to exercise and participate in sports at a much greater intensity level than prior to retirement. Many retirees play golf, pickleball or tennis regularly, while others prefer scenic hiking and walking. Others may try new activities such as scuba diving that would be possible only because retirement affords them the opportunity to travel to different locales. In this sense, travel and physical activity may be interlinked for retirees.

PHASE ONE (THE GO-GO PERIOD) AND COVID-19

COVID-19 made major changes in the routines and daily lives of most Americans. During the initial phases of the pandemic, most people were staying at home with little or no in-person social contact or outside activities. Travel and group activities were at a standstill, and retirement was radically different. Many families and groups were meeting online using services such as Zoom and Go-to-Meeting for group conversations and meetings. After the initial phase, various activities opened up, with different decisions being made in different states and by different groups. Outdoor sports with social distancing resumed in many cases, but many indoor gatherings were canceled or shifted to online activities. Masks and socially distancing were strongly suggested and required in many places. Large conventions, cruises and business meetings are unlikely to resume until at least some time in 2021. Domestic air travel is available in the U.S. with international travel having many more restrictions. Some travel is not feasible at this point, and care is needed for other travel. Individuals have made very different decisions based on their comfort level with different types of travel and COVID-19 precautions. This is likely to continue until vaccines are widely available and distributed.

Financially, COVID-19 has had less impact on retirees' income sources than on workers' income. It is unclear what impact it will have on asset values in the longer run. Equities took a sharp drop early on but recovered most of the loss by later in the year. It is unclear how the assets will fare moving forward.

Many people are interested in doing some work during retirement. It is likely that many companies will conduct more work from home after COVID-19, and this may create some new opportunities for retirees. During COVID-19, the scale of work-from-home dramatically increased, and many companies closed or nearly closed their offices. It appears likely that many organizations will not reopen their offices until some time in 2021, and some may change their operations permanently.

Phase Two: Slow-go

The beginning of Phase Two is marked by a decline in either physical or mental capacity, or both. About 70% of the retirees and 85% of the pre-retirees in the 2007 survey expected to experience Phase Two during retirement. This phase, if it occurs, does not happen at the same age for all. Some retirees may unwillingly enter this phase because of health problems that occur before retirement, causing them to miss Phase One completely. Because of physical limitations, exercise will generally have shifted away from vigorous activities, although many will continue to exercise on a regular basis. For some, driving may become a problem. Consequently, transportation may pose a significant issue, particularly if no family members or friends are available to drive.

Because of health problems, retirees in this phase may incur extra medical expenses, and they often have high prescription drug costs or expenses for in-home help. Adequate insurance becomes more of an issue during this phase. Generally, other help needed at this point will not be covered by health insurance or long-term care insurance. Related to health conditions, retirees may need to make decisions concerning their housing and whether they need to move to a home that is more physically manageable or to an assisted living facility in a retirement community. Some people will move in with other family members, possibly into houses designed for multiple generations. Given these concerns, specially designed housing can be extremely helpful.

For couples, it may be that only one is experiencing Phase Two, while the other is still working and/or healthy. This presents the healthy spouse with responsibilities to arrange assistance as needed. For the types of assistance needed during this phase, the family generally is the primary source of help, perhaps supplemented by others. Community and paid services for assistance may also be available. Fewer retirees work in Phase Two, although some will continue to do so.

Relationships are often important in this phase. For example, living near family and having their support is helpful, although not always possible. In terms of personal interactions, many retirees in this phase enjoy various volunteer activities and clubs. Volunteer activities offer a way to reach out to others and give back at the same time. Book clubs and game groups are typical examples of other activities. In addition to providing needed physical support, one of the advantages of retirement communities and specialized housing is that they offer capability-appropriate activities and the chance to make new contacts and friends.

For those who want to travel and have the resources to do so, travel needs to be planned to fit the limitations of the individual. Cruises offer a good option for retirees with modest limitations. Likewise, national parks and wildlife refuges in the U.S. offer a wide range of walking and wheelchair-accessible opportunities. For retirees in this phase who are less mobile, travel may be more confined to visiting with others, rather than sightseeing and touring.

PHASE TWO (SLOW-GO) AND COVID-19

Additional considerations exist beyond those discussed in Phase One. Transportation is an issue for some in Phase Two, and COVID-19 creates concerns with regard to the use of public transportation, taxis, Uber, etc. People using such transportation during the pandemic should be mindful of social distancing and mask wearing, but there is still some risk.

An assisted living facility may be an option for people in Phase Two. Some facilities have had COVID-19 outbreaks and deaths. Activities and group dining made it easier for COVID-19 to spread in these populations. In response many of these facilities required residents to stay in their rooms over a number of weeks, and they stopped having activities. Activities are likely to remain discontinued or limited until the residents are vaccinated. Some facilities have not allowed visitors (including family and others who may be helpers) for a number of weeks, and they may continue to limit visitation for quite a while. These issues raise a new set of considerations in deciding whether or not to move to such a facility. It is possible that the organization and structure of some of these facilities will change as a result of this experience.

Individuals in Phase Two are likely to be using more medical services, and COVID-19 will likely create complexity in securing such services. Some individuals are concerned about visiting medical facilities, particularly if they may also be facilities where people with COVID-19 could be present. Some health care is being delivered via telehealth, but some services such as physical therapy may be harder to get. Individuals who are accustomed to having someone with them at the doctor may find that this is a problem. Also, some hospitals are not allowing visitors during the pandemic. In local areas where there is a surge of COVID-19 cases and a strain on hospital facilities, elective surgeries and routine screenings like mammograms may be deferred. This happened in the early stages of the pandemic and is happening in some areas at the end of 2020.

The social activities that are particularly valuable in Phase Two were partly shut down as a result of COVID-19 and will likely continue to be limited until there is a vaccine. These activities can include card games, Bingo, art or photo groups, coffee klatsches, trips to local performances, lectures, exercise classes and more.

Cruises are a form of travel that works very well for Phase Two, but cruise travel has been shut down for many months, and cruise ships have proven to offer an easy environment for the virus to spread. It is unclear how much cruise travel will be available until there is widespread vaccination. It is also unclear how attractive cruising will be in the future, and whether the public will return to cruise travel on the same basis as before.

Phase Three: No-go

Phase Three is the least active phase of retirement, and it is a time when retirees likely will have substantial need for assistance. About two-thirds of pre-retirees and retirees in the 2007 survey expected to experience Phase Three during retirement. Like Phase Two, Phase Three, if it occurs, does not begin at the same age for all retirees, and it is likely to begin at different ages for couples. The need for assistance may arise due to cognitive or physical impairment or both. Some retirees in this phase are unable to speak, hear or write, and communication can be very difficult.

Retirees are much less physically active during this phase. Activities will generally be limited, but special exercises can be designed for those with limitations. For most, driving may no longer be feasible. Mobility and transportation are a significant issue, particularly if there is not a family member available to help.

Appropriate and regular support is an important aspect of this phase. Many retirees will prefer to stay in their own homes, if possible. For most retirees requiring nursing home care, long-term care insurance will pay for certain benefits, but few of them have it. The prospects for retirees in this phase vary considerably depending on the type of disabilities they have and whether they have access to caregivers such as family. In terms of who provides the caregiving, family is often the primary source of this support. Community and paid services may also be available.

In many cases, family caregivers may need to cut back on or leave their jobs because of the intensive demands of caregiving. Such situations can also create great personal and financial sacrifice and strains. Difficult decisions regarding living arrangements occur frequently when a great deal of caregiving is needed. For instance, during Phase Three, many retirees will need to decide if their present housing is suitable and at what point housing requiring less maintenance, a senior community, assisted living or a nursing home is necessary. Whether present housing is suitable will depend on such features as the number of steps in the house, access for wheelchairs, daily assistance needs and proximity to health care providers. Because of health problems, retirees in this phase usually have extra medical expenses, and they often have high prescription drug costs.

Relationships and interactions with others are very important in this phase. As in Phase Two, being near family is helpful but not always possible. Many individuals in this phase will no longer be able to participate in the social activities they previously did. One of the advantages of assisted living and nursing homes is that in addition to housing, food and care, they usually offer activities suitable to those with severe limitations.

PHASE THREE (NO-GO) AND COVID-19

More challenges associated with COVID-19 confront people in Phase Three. Potentially there will be challenges with the caregiving and support systems. The support system for people in Phase Three can include a variety of helpers and caregivers. Some of them may not be available as a result of the pandemic, and there is concern about the possibility that they can be a source of infection. Some people are able and willing to continue their current support systems, but others are not.

Depending on the situation, challenges may occur based around support from family members. If anyone in the family is an essential worker or first responder, the family support person may not want to be in contact with them because of the possibility of infection. Travel may also be a barrier to support.

Nursing homes are subject to the challenges discussed above in Phase Two, and many of them have had major outbreaks and many deaths. In some states, more than half of the COVID-19 deaths occur in nursing homes. Therefore, strong incentives exist to try to care for people at home. It is also possible that we may see innovations in nursing home care.

These challenges may lead to more multi-generational households and to interest in housing that has living quarters with a separate entrance that can be used by older family members to keep them separated from others.

It is unclear what the lasting ramifications will be once there is a widespread availability of vaccines and/or good treatments that offer a cure.

CHANGES IN THE PERIOD LEADING UP TO RETIREMENT

Traditional retirement planning often assumes continued employment over a long period of years before retirement, regular savings or earning benefits in a retirement plan, and a regular pattern of earnings.

But in reality, many people experience job losses, health challenges, family challenges or investment issues in the period when they are nearing retirement that can impact their retirement security. The Great Recession was a particularly difficult problem because of major drops in real estate values, many foreclosures, many job losses and declines in equity values.

The 2019 Risks and Process of Retirement Survey included questions to focus on the impact of individual changes and larger societal issues. That survey explored whether the Great Recession had a lasting effect on people's retirement security, whether time out of the workforce as people neared retirement had an effect on retirement savings and security, and whether major health problems as people neared retirement had an effect on retirement security. In each case, the answer was yes.

Common wisdom with regard to retirement planning and investing is that equity values often recover from down periods, and there is value in patience. However, it seems very likely that people who experience foreclosures do not recover what they lost. There is clear evidence that people who lose jobs in the period relatively near retirement have difficulty getting new jobs and very often have reductions in earnings when they do. The experience of the equity markets does not tell the story for middle- and lower-income Americans, and particularly for those who experienced these major disruptions.

The 2019 Risk Survey showed the following:

- The survey results indicate that more than two in ten respondents had missed one or more years of working full time after the age of 45 (i.e., career disruptions). Approximately three in ten had missed six months or more of working time.
- Results showed that missing significant work had a negative impact on savings and a sense of security for most people, and more so for pre-retirees.
- Retirees who had experienced a major health problem before retirement were less well-off and had more concerns than those who had not.
- In 2019, 11 years later, one-third of retirees reported the mortgage crisis and market decline of 2008 had an impact on their retirement. Of the 33% who said it had an impact, the impacts varied. Those included 4% of respondents delaying their retirement, 11% reducing what they spend in retirement, and 22% feeling less secure about retirement as a result of the crisis and decline.

CHALLENGES CREATED BY COVID-19

COVID-19 has resulted in widespread unemployment during 2020 and major fluctuations in assets. Federal relief packages moderated the impact of unemployment for the first few months and included temporary bans on evictions and foreclosures. It is unclear how much unemployment will be long-term and what economic impacts will be longer term. There is concern that the end result will be many evictions and foreclosures and substantial numbers of business closures. It will be several years before the overall impact on retirement security is known.

CHANGES DURING RETIREMENT

The description of the three phases of retirement provides an overview of change during retirement. Another way to look at change is to think about specific things that change during retirement. Here are some key changes and issues that surfaced:

- Demographic patterns change throughout retirement. Many have lost spouses and some have formed new partnerships.
- Many people retired earlier than expected and were pushed into retirement.
- Although many expected to work in retirement, and quite a few did so earlier in retirement, this decreased with increasing age.
- Overall, people seemed to become less concerned about risk as they aged.
- Spending generally declined with increasing age except for health care. Many experienced unexpected events that required unanticipated spending. However, overall retirees seemed to be resilient and accepting of declines in spending.
- Basic financial management patterns remained fairly constant over retirement.
- Shocks can occur throughout retirement and are often not planned for. Multiple or successive shocks can have damaging financial results.
- Physical and cognitive health changes over time. By age 85, most individuals have some type of health impairment, whether it is cognitive decline, vision maladies, skeletal or joint problems, hearing loss, or balance issues and fear of falling. A number have serious health issues.
- The role that family and other support systems play is of increasing importance as people age and become less capable of living independently. The ability of family to provide transportation, social contact and support can make a huge difference for those less able to get around and maintain their residence.
- Most people have gradually lost friends and their social contacts change over time. Later in retirement, some retirees find that they have lost nearly all of their friends.
- Although most people prefer to stay in their homes, many who live to high ages will need to move because of physical limitations, need for care and support, and proximity to family and help.

SOCIAL ENGAGEMENT, FAMILY AND COVID-19

- Those without family to provide such help may need other methods of support. COVID-19 complicates securing support.
- Social contacts are important throughout retirement, and COVID-19 makes maintaining them more difficult.

SOA CONSUMER RESEARCH AT DIFFERENT TIMES DURING RETIREMENT

The SOA conducted a series of focus groups and in-depth interviews to understand what retirees were saying about retirement and their plans. They included the following:

- *The Decision to Retire and Post-Retirement Financial Strategies: A Report on Eight Focus Groups,* 2013
- *Post-Retirement Experiences of Individuals Retired for 15 Years or More,* 2016
- *Post-Retirement Experiences of Individuals 85+ Years Old: A Report on Sixty-two In-Depth Interviews in the United States and Canada,* 2017
- *Life Journey Study: A Report on 40 In-Depth Interviews in the United States and Canada With Adult Children of Recently Deceased Parents,* 2019

How the Studies Link Together

2013 Focus Groups: Individuals retired less than 10 years: These focus groups studied people who were retired less than 10 years. There were two sets of findings in this work: how and when people retire and how they managed their finances in retirement. Surprises were found in both sets of findings. The key findings are discussed below.

The method of managing finances in retirement caused concern among the SOA research team and raised more questions. The focus groups indicated they did relatively little longer-term planning and had an expectation that they would deal with unexpected expenses as they happened. The focus groups also provided a message that there was a preference to reduce spending rather than spend down assets. This led to the team asking the question: How will this work out in the longer run?

2015 Focus Groups: Individuals retired 15 years or longer: These concerns and questions led the SOA to the next set of focus groups. The goal was to see whether the strategies people had used earlier in retirement were working out, and to understand the impact of a variety of shocks and unexpected expenses. Overall, these retirees were doing better than expected, and they seemed resilient and able to deal with a variety of uncertainties. Some shocks (especially multiple shocks) were more likely to cause trouble than others. This led to the team asking the question: Are things likely to go bad later in retirement?

Individuals age 85 and older: The next step was to focus on people age 85 and older. The goals were to see what had changed, how they had changed spending, how they were doing with their finances, what types of help they needed and where family fit in. Except for the people needing substantial paid-for long-term care, the group overall seemed to be doing pretty well, and they were resilient. This led to a further step to understand if things went wrong before the end of life.

Children of deceased parents: This was the final step in a focus on the total retirement period.[1]

1 The interviews of children with deceased parents was the first part of a two-part project. The second part is a survey, which was put on hold and restarted late in 2020.

Moving Into Retirement and the Early Years of Retirement

The 2013 focus group research provided insights into how people move into retirement and their early years in retirement.

Decision to retire: Even though the focus groups were of participants for whom retirement was voluntary, most of the retired participants felt they were pushed, and they retired in response to health issues, challenges in their workplace or the need for family care-giving. These results were a surprise at the time of the focus groups. The participants did not retire primarily to have free time to pursue a hobby or start a business, although most of them were enjoying frequent travel. They described reasons for retiring as workplace difficulties such as jobs that were physically difficult, messages from their employer that they perceived as "encouraging" them to retire, and challenges in working with younger supervisors, among others. Typically, the retirement decision is assumed to consist of a clear distinction between voluntary and involuntary retirement. The stories in these focus groups indicate that much so-called voluntary retirement is actually the result of a "push" and that the distinction between voluntary and involuntary retirement is not necessarily clear-cut for middle-income retirees. Results were not tested for retirees with higher income and asset levels.

Surprise finding: The large number of respondents who had been pushed into retirement.

Defining and understanding financial strategies during the early years of retirement: The focus groups looked at how middle-market Americans manage financially and how they deal with key financial risks after retirement. Many of the focus group participants showed common behaviors and actions:

- Participants were very aware of their regular income and expenses, and they managed expenses based on their estimated recurring expenses. They were very adaptable with regard to spending decisions and willing and able to reduce spending when needed. They were accustomed to making trade-offs when necessary. However, they were not good at planning for or anticipating irregular expenses such as home repairs.
- The major strategy for managing their assets is to preserve them. Most did not have a plan to systematically withdraw assets from their retirement accounts. Those who had reached age 70½ use the legally mandated Required Minimum Distribution rules to withdraw funds from their Individual Retirement Accounts.[2] They did not necessarily think much about volatility, and some had more assets now than when they retired.
- Some maintain "dual asset accounts" and have a "slush fund" for discretionary spending. The extra fund balance lets them know how much money they can spend on travel and other discretionary items.
- Most own their homes, have paid off their mortgage and appear to be very careful about debt. They had no interest in using a loan or reverse mortgage to access the equity in their home. It does not appear that they have large credit card balances.
- There was no evidence from the focus groups that people are spending significant parts of their assets on luxury items, such as boats or RVs. They did make choices about current spending, and a number report reducing the amount they travel and foregoing other discretionary spending when necessary.
- This research, like other SOA research, showed a relatively short planning horizon and very little longer-term planning. Planning is focused on expected cash flow in the current year. Most have not done longer-term planning, and participants generally did not consider inflation.
- People want to hold on to their homes and home equity as long as possible. They generally plan to stay in their homes, but some plan to downsize.

2 The *RMD* requirement was changed to 72 in 2020 as part of the SECURE Act.

- Family is an important factor in retirement. Some participants have helped and are still helping family members. However, they want to be independent and do not intend to rely on family if they need help themselves.
- The focus group members for the most part do not explicitly plan for shocks and longer-term risks. Their risk management strategies appear to be asset preservation, limiting debt and controlling spending. They do not focus on financial risk management products, and many are not well prepared to deal with substantial shocks. A few have long-term care insurance, but there is no information about its adequacy.

Surprise findings: This pattern of financial management raised a number of questions and red flags. There was concern about the short planning horizon and limitation of planning to focus on regular expenses rather than the unexpected shocks. When participants were asked about how they planned to spend down their assets over retirement, the response was they wished to hang on to them and not spend them down. When asked how they would deal with future problems, the response was to figure it out when it happens.

Social Security claiming decisions: Most participants had claimed Social Security at age 62, and they commonly did a simplified type of "break-even" analysis. Such an analysis generally ignores longevity risk and inflation and may lead to an adverse result for people who live longer than the actuarial tables indicated as their expected average lifetime.

Differences between men and women: The focus groups were separated by gender, and there were striking differences noticed by gender. This research strongly indicates significant differences between men and women in the concerns and feelings about retirement, views of care-giving obligations and family relationships, level of optimism, and vulnerability and planning behavior. The men appear optimistic, confident and more likely than women to think they will be able to adapt to any financial situation that arises. Women seem much more concerned about financial security than men and are more concerned about running out of assets, needing long-term care, being a burden on their children and impacting the financial success of their children. Women are much more likely to be caregivers and to retire in response to family needs. Men are much more likely to remarry if widowed or divorced, and they often marry younger women. The greater concerns of women seem realistic given their longer average life expectancy and the general tendency of women to marry older men.

Activities in retirement: For these participants, activities in special interest areas, development of new skills, increasing time for hobbies or extensive travel did not appear to be the major driver of their retirement decisions. Some have hobbies, but they did not cite them as the reason for retirement. Some have used part-time work to fill their days. Others have spent more time with family and grandchildren or traveled.

Overall satisfaction: Most of the respondents were generally satisfied with the retirement decisions they made. Some would have preferred to work longer. There was significant variation in how satisfied they were with their life in retirement. Some were lonely, particularly widows. However, they found a value in freedom and stated that their decisions were based on more than just finances.

The Voices of Recent Retirees

The following are representative quotes from focus group participants.

"When the company reorganized and showed that they weren't interested in people my age and opportunities came and went. Opportunities came to younger people and to me it was a sign that you'd better start thinking about it." —Female, Chicago

"My company was doing a lot of overseas outsourcing, and for three years I went every day to work wondering if this was going to be my last day because they were downsizing and letting people go. Then they came over and we had to train them to take our jobs away. Like you had said, too, it was more or less age. And I wanted to know day-to-day whether I had a job or not, so I had the option to retire and I was vested too, so I chose that."—Female, Chicago

"I just paid everything off before I retired. I didn't have any credit cards, no mortgage, nothing, no car payments. I knew I could afford it. My wife still worked. She worked a few years longer than me."—Male, Phoenix

"My main concern is the expenses I have no control over. In the past year, my long- term care insurance, my taxes, my homeowner's [insurance] have all gone up. I can't do anything about that."—Male, Chicago

Summary of findings: These findings paint a picture of these retirees who appear to be "resource-constrained" as careful and conservative financial managers in the short term with a focus on current cash flows rather than on shocks and changes over time. They are quite flexible and able to reduce current spending to match their current income. They are reluctant to draw down assets, saving them for emergencies, shocks or an inheritance. They limit what they spend for travel and meeting their dreams. They do not plan for significant inflation, substantial long-term care needs and large unexpected medical expenses. Very few are using insurance products to manage these risks. Although some get formal financial advice, many manage their assets on their own.

Comment: The financial strategies preferred by the early retirees were also preferred later in retirement.

The Middle Years of Retirement: How Financial Strategies Worked Out—Shocks and Unexpected Expenses

The focus groups with individuals retired 15 years or more found generally consistent financial strategies when compared to what was learned from those retired under 10 years. The groups explored shocks and unexpected expenses to learn how well the retirees dealt with reality. The findings also illustrate the impact of a failure to plan for the long term. Key results included the following:

- Most long-term retirees have coped well with managing their finances during the first decade and a half of retirement.
- Some have had to make cutbacks in their lifestyles: they state they have gone from satisfying "wants" to satisfying "needs." But those who have had to make that transition have accomplished it with resilience and not bitterness.
- Some have experienced financial shocks, but most shocks have been absorbed and adjusted to well. Many, particularly those who have experienced multiple financial shocks, have had to make significant cuts in their spending. Many speak of going from buying what they want to buying only what they need and feeling that they do not need much.
- Focus group retirees report several types of major unexpected expenses. Among these are (1) long-term care, (2) home maintenance, (3) financial gifts or loans to children, (4) medical costs, (5) divorce/widowhood, (6) inflation, (7) taxes and (8) dental costs. Many of these expenses are predictable (though often their timing and cost is not), including the need for long-term care, home maintenance costs, medical care, widowhood, inflation and taxes.
- This research found that some financial shocks cannot be absorbed and adjusted to, including needing long-term care, having a child that cannot support himself or herself, and getting divorced during retirement.
- Almost all focus group participants report home maintenance expenses. The most common expenses are replacement of roofs, furnaces or air conditioning units, and kitchen appliances. Most say that although these expenses are major, they were able to absorb and adjust their spending to account for them.
- The financial consequences of a lack of planning for single events tend to be small, with a few notable and important exceptions. Although there is a great deal of concern about the financial impact of an illness or disease in later life, the financial consequences generally seem to be manageable.
- The longer the time in retirement, the higher the likelihood that a financial shock event will occur. (To increase the understanding of how financial shocks affect retirement well-being and planning, several of the focus groups were conducted with individuals who experienced a health crisis, widowhood or divorce.)
- In addition to the focus groups, separate in-depth interviews were conducted with people whose parents or spouse needed long-term care. (This was important because people needing long-term care are not represented in the focus groups, and the SOA wanted to be sure they were represented in the study.)
- There are some cases of unexpected expenses that exceed $5,000 in a year. These tend to be dental costs, home repairs (such as the need for a new roof or furnace), a grown child who loses a job or is unable to work, and divorce in retirement. In most cases people pay for these costs out of their accumulated savings. Often, they try to reduce their expenses to make up for the money they withdrew to pay for the expense. In other words, they absorb the costs and adjust their spending.
- The death of a spouse who did not need long-term care prior to death did not cause a major drop in asset levels. Widowhood clearly causes a financial strain but not a major drop in assets for those participating in this research.
- Some shocks caused major problems. The situations causing major problems were (1) needing long-term care, (2) having an adult child with a mental illness or other condition who is unable to work and (3) getting divorced in retirement.
- Health and cognitive decline issues were more difficult to cope with than financial issues.

The Voices of Middle-Year Retirees

The following are representative quotes from focus group participants.

"We do a budget every year. I do that religiously and my son helps me with that, because he is an absolute whiz with numbers. A budget for spending based on projected income."—Male, Higher Asset Group in Dallas

"I've had—our house upkeep, furnace, driveway. In the last month, I have spent $2,500 on one expense, $3,600 on another expense. That's in one month. A couple of years ago, my roof went and my furnace went. Everything."—Female, Marital Change Group in Chicago

"I just finished giving my daughter $3,000 to repair her car, and she gave me half of it back."—Female, Marital Change Group in Kitchener, ON

"Well, it's not so much unexpected, but substantial dental that … I mean, you start to get into thousands of dollars sometimes and no insurance."—Female, Health Decline Group in Chicago

"Well, we ended up going bankrupt, because he went in debt with gambling."—Female, Marital Change Group in Kitchener, ON

"I would say that I am living the same lifestyle that I have lived all my married life, but my house insurance, the property tax, they have increased almost double. Hydro has tripled."—Female, Marital Change Group in Kitchener, ON

"When we retired, we spent/wanted. Now I am spending a greater percentage on needing and not as high a percentage on wanting."—Female, Marital Change in Chicago

"When I was working and making a considerable amount of money every year, I didn't shop. If I needed something, I would go buy it. I never thought about shopping. I will tell you something, my wife and I have made shopping and coupon clipping, of course using the Internet, a hobby."—Male, Lower Asset Group in Baltimore

"We don't have a lot of money, but we never needed it. We never lived above our needs I guess. I take a couple of trips every year and my wife goes up and visits her brothers. We do basically what we want. We are happy."—Male, Health Decline Group in Dallas

"I want to make sure I leave my children an inheritance like my father did for me."—Female, Health Decline Group in Baltimore

Surprise findings and summary: The retirees did better overall with shocks than was expected and showed resilience. The results of the different studies over time showed consistency in the way retirees were thinking and dealing with issues. The shocks mentioned most often by retirees, including home repairs and dental expenses, were unexpected expenses but not what the research group felt were significant shocks. It was not unexpected that a major long-term care event would lead to asset spend-down.

Additional findings from these focus groups include the following:

- There were many similarities between the retirees in the U.S. and Canada except in health care coverage.
- Women are more likely than men to feel vulnerable in retirement; they also have a higher level of concern about their finances. Both men and women seem able to absorb and adapt to financial shocks in retirement. They report the same types of shocks, although men are more likely to say they deal with these unexpected expenses by using, but not replenishing, their assets. On the other hand, women more frequently mention they adjust their spending to deal with these unexpected expenses and try to rebuild their asset level.

- Widowhood and divorce have different financial impacts on focus group retirees. Widowhood is less of a financial shock than divorce is. Widows and widowers say although there may have been an initial cost to losing a spouse in the form of less retirement income, they have been able to adjust financially.
- Divorce is more costly than widowhood, and retirees typically cannot adjust or absorb the cost of divorce. Those who divorce after retirement report losing up to half of their assets or having to sell their home, either because it was part of their settlement or because they could no longer afford it.
- For most respondents, there was not much financial difference between the groups that had experienced a health shock and those that had not. The more noticeable impact of a health decline is the emotional impact and loss of capability related to the health problem. Many say they do less than they did before their health shock and they find life less enjoyable.
- Long-term care, when it is required, is often a financially catastrophic expense in retirement.
- The majority of focus group participants indicate that their spending habits have changed since retiring. Participants often use words like “thrifty” or “frugal” to describe their spending habits. They report trying to buy only what they need as opposed to what they want.
- Some of the unexpected expenses in retirement could be mitigated with better planning and financial risk products. Few have annuities, long-term care insurance, reserve funds for home maintenance and repairs, or another type of product to help them manage expenses in retirement. Some have life insurance coverage, but coverage levels are often quite low and are often intended only to cover funeral costs.

Later in Retirement: Age 85 and Over Studies

The studies and collected experience do not show specific changes related directly to age. Many people age 85 and over have experienced a variety of changes, and they experienced those changes at different times and in different combinations. Thinking about financial management seemed very similar to earlier periods in retirement, except that some people needed to be more frugal and spend less. The mechanics of getting it done changed for some people. Generally this group seemed resilient and adaptable.

Many more people reported needing help at older ages, with the need often seeming to increase with age. People who live independently, and do not have significant cognitive difficulty, did not appear to change the way they manage their money. However, once people experienced cognitive decline, everything changed. These individuals often needed help with money management, driving and taking medication, and other aspects of life.

In addition, many elderly persons reported having hearing difficulties. This can create a variety of problems, which compound other problems. About 2% of adults ages 45–54 have disabling hearing loss, compared to 8.5% for ages 55–64, 25% for ages 65–74 and 50% at age 75 and over.[3]

To borrow from a well known idiom, health is the "elephant in the room" for older adults. Changes in health status often lead to declines in capability and the need for more help. Cognitive and physical changes can require the need for different types of help. Changes in health can easily dominate the situation, especially when they occur suddenly and unexpectedly.

For some families, long-term care and health costs are a huge issue. Health coverage usually does not pay for much long-term care, and the cost of long-term care can be devastating. Insurance generally does not pay for dental care and hearing aids. Some situations involve other uncovered expenses. Moreover, wide variations exist in whether help is needed, what help is needed, how much, when and for how long, especially since the person's situation can change frequently.

Individuals over age 85 generally need a significant amount of help. People who reside in assisted living facilities very often get help with money management. Family members, especially children or other younger adults, often find themselves in the role of helpers, and they appear to be used more often than financial advisors. This happens even though family members are not always the best qualified to help (some may not be competent, and some may not be honest).

The money management help that people need includes help with daily tasks like bill paying, as well as advice in making decisions and managing investments. Some professionals specialize in daily money management and bill paying, and some focus primarily on working with elders. By comparison, most financial advisors generally do not provide this type of service.

Even if not disabled, the older population also often needs help with other important tasks. These include making doctor's appointments, visiting doctors, running errands and performing some household tasks.

Couples often have a healthier partner to help the partner in need, although with some couples, both need help. With some couples, for instance, one person does most of the money management, while the other may not provide much backup.

3 Anna M. Rappaport and Sally Hass, Management of Post-Retirement Finances for the Age 85 and Over Population: Some Advice and Lessons From Personal Experience, Pension Section News, September 2016.

Family help is not available to substantial numbers of people, however. Some people have no children, and they may not have other family members in a position to help. Others do have children, but the children may live far away or are not willing or qualified to help their parents. Single individuals may have no relatives, partners or close friends who can step in.

Those with no available family members may find it difficult to find a suitable person to help. They can sometimes engage fee-based services or individuals to oversee people who provide these hands-on services. In addition, they may find assistance through churches and senior community groups, such as “senior villages,”[4] but locating such nonfamilial support is not always easy. Caution is needed in selecting someone to help because of the possibility of financial exploitation or fraud.

Family members are common helpers, but the relationships and situations are not always smooth. Some family members, among others, may approach the older persons with requests for gifts. This can be a thorny issue, particularly for family members who are helping older relatives. When multiple children or family members are in the picture, the potential for conflict and resentment exists around management of the older family members’ finances.

Voices of Retirees at Age 85 and Over

The following are representative quotes from focus group participants.

“No, I can’t afford everything I need. There are a lot of things that I wish I could do, but they are not hindered by finances. They are more hindered by my physical capability.“—Dyad, parent, over $50K in assets, male, Baltimore

“I’ve been somewhat frugal, yes. Because when you’re a child in the Depression days, my parents were very frugal, and I saw how it happened for them that they were all right when they did retire.” —Elderly, $50K-or-more-asset female, Vancouver

4 Villages are community organizations of seniors designed to help age in place. They operate under a variety of models and include different supports.

Perspectives After the End of Life

A series of in-depth interviews offered perspectives from adult children who were knowledgeable about their parents' circumstances and whose parents died at high ages. These interviews help complete the picture and add to the findings from the age 85 and over research. Here are some highlights.

The end-of-life scenarios the children in this study described for their elderly parents varied greatly depending on the progression of illness and cognitive decline as well as the resources that the parent and the family had to use to handle the aging and eventual death of their parents. Adult children often helped parents, but they tended to react to their parents' changing needs rather than plan for them in advance.

The path and period of decline varied. In a few of the interviews, parents were relatively healthy until shortly before death and required only a brief period of intensive support, but more of them indicated there was an extended period for which some level of support was required. Parents experiencing cognitive decline usually required a longer period of care, were more dependent and had less say in decisions. Cognitive decline often happened gradually, and aging parents often hid or did not recognize signs of impairment initially. Children did not always recognize the severity of the decline, and by the time it was dealt with, it was often quite significant and a crisis. Parents often had a triggering event that led to sudden physical decline such as a fall, a stroke or heart attack, but sometimes the decline was gradual, caused by factors such as arthritis or macular degeneration.

One key responsibility that the adult children took over was managing their parents' finances, but some respondents did it only for a short period while others managed them for a very long time. This sometimes happened when the parental spouse who handled finances died first. One pattern cited was that children acquired joint management of checking accounts and took over bill paying. Children also took over investment and asset management. There was some evidence of children taking advantage of their parents for financial gain. This study offered limited information about fraudulent activity and financial exploitation, but other sources indicate that it is a very important problem.[5]

People varied greatly in the amount of help they needed. Some did not need help, in other cases the family was able to provide the help needed, and in others paid help was required. In many cases, the parent was moved to assisted living or a nursing home. The need for help could emerge all at once, or it could gradually increase with the type and amount of help changing. For some families, the most difficult decision involved placing parents in a nursing home. The need to move a parent to a nursing home was more urgent in situations of extensive cognitive decline.

IMPACT OF COVID-19

COVID-19 has been extremely difficult for many nursing home residents in grave condition, and also in hospital settings. Families have generally been unable to visit their loved ones in facilities and hospitals. Many people have died alone or with a health care worker at their side. This has been especially traumatic for all parties.

While adult children often helped take their parent to doctor's appointments, they were not likely to serve as advocates for them. It was most common for the adult children to follow the doctor's advice without question and play an active role in making sure it was followed. However, several did get second opinions or seek geriatricians, and a few questioned the doctor's decision later.

Where families were helping their older family members in their final months, some worked cooperatively but others did not. The quality of the experience for all concerned depended not just on the help needed by the parent but also on the extent to which family members worked together.

5 The SOA is doing additional work on this topic, and a report is expected in 2021.

The Voices of the Children Interviewed

The following are representative quotes from focus group participants.

Maybe after three years [of being in assisted living, his personal financial resources ran out]. The independent care was very expensive, so of course we put money in for that.—Deerfield, Illinois

She probably had somewhere around $150,000 maybe. Maybe $200,000. So maybe it [the aides] was $30,000 or $40,000 a year. . . . It worked. I remember us saying we just about drained her money.—Deerfield

She was there for almost nine years, so I would say by around after five years they [her funds] were getting depleted. —Toronto

I would watch the checking account. Toward the end, she became, not even toward the end, for a few years she didn't realize the value of money and she kept saying to pay the caretaker from my check, let's go buy groceries. She had no concept of how much money was coming in and what was going out.—Deerfield

Mother's son spent all her money. While she lived with him, they would use her Social Security. They would all go to the casino.—Deerfield

My uncle decided that they would give my uncle's son power of attorney since they lived in the same town. . . . He spent over a quarter of a million dollars, and so we had to go through all of that. I guess it was closer to half a million. It had been going on for two years before we realized, if it had not been for her broker realizing, that something was wrong. —Memphis

We talked about what was going to be needed. We looked at her present condition and what the doctors had told her to expect, that she was going to decline and that as the disease progressed, she was not going to be able to do for herself. So in our discussions we talked about someone who would be comfortable giving her a bath and do it with dignity.—Memphis

It was more of an emotional stress than a physical one. Because looking at a person that is fairly healthy and you see them decline, it was very emotionally stressful because you actually kind of prepare yourself for their death. And that was hard.—Memphis

Emerging Themes

Throughout the various studies, several themes emerged at different points during retirement, or in different ways during the stages of retirement. In this section, some of these themes have been selected for discussion.

SPENDING DURING RETIREMENT

The overall research on spending in total points to several conclusions:

- Many retirees try to be frugal.
- Average household spending drops after retirement by age within retired cohorts. More households reduce spending than increase spending.
- Health care is the one area of spending that increases by age: Table 1 shows mean and median spending by age group. Mean spending increases both as a dollar amount and as a percentage of total. Recurring health care, doctor and dentist visits, and prescription drug costs remain stable throughout retirement. Premiums are a large part of spending during retirement. Nonrecurring health services, nursing home stays, home health care usage and overnight hospital stay costs increase with age and are much higher in the period right before death. The percentage of total spending devoted to health care increases by age group.[6]
- Housing is the largest area of expenditure by far.
- Not surprisingly, spending on transportation, entertainment and clothing decreases more rapidly by age group than housing and food expenses.
- Some categories show much more variability than others.

The SOA research provided information on people reducing expenses and working to control expenses. Research on spending in retirement shows that although health care spending increases with age, other spending tends to decrease. This contrasts with traditional thinking about retirement planning, which often focuses on maintaining the pre-retirement standard of living, including recognition of inflation and, often, increases in medical costs.

Table 1 shows mean household health expenditures increasing from age 65–74 to higher age groups while most other expenses are decreasing. A decrease in household size contributes to the decreases but does not explain the entire decrease.

Table 1

MEAN AND MEDIAN HOUSEHOLD SPENDING IN 2011 ADJUSTED TO 2013 DOLLARS BY AGE GROUP

	Age 65–74		Age 75–84		Age 85+	
	Mean	**Median**	**Mean**	**Median**	**Mean**	**Median**
Home	$18,720	$12,642	$14,732	$10,805	$13,111	$8,781
Food	4,526	3,982	3,994	3,228	2,520	2,152
Health	4,383	3,104	4,624	3,109	6,603	2,814
Transport	5,169	4,025	3,666	2,794	1,972	1,241
Clothing	1,311	724	950	569	888	434
Entertainment	4,300	2,380	3,277	1,655	1,609	714
Other	3,583	1,148	3,565	1,034	3,188	734
Total	$42,805	$34,036	$35,315	$29,884	$30,610	$22,263

Source: Figure 2 from Sudipto Banerjee, How Does Household Expenditure Change With Age for Older Americans? EBRI Notes, September 2014.

6 See Sudipto Banerjee, Utilization Patterns and Out-of-Pocket Expenses for Different Health Care Services Among American Retirees, *EBRI Notes*, September 2014.

It should be noted that although the Employee Benefit Research Institute (EBRI) analysis of Health and Retirement Study (HRS) data and the SOA research produce very different types of information, the information fits together well. It is clear that something is going on concerning spending by older households that is very different from the traditional idea of maintaining a standard of living.

LONG-TERM CARE AND CAREGIVING

Long-term care costs are often a major problem when paid care is needed. The SOA has studied these challenges in the 2017 SOA Risks and Process of Retirement Survey, the 85 and over research, and in a special call for papers.

Some findings from this work are the following:

- Relatively little advance planning occurs for long-term care and its financing. Insurance can be a big help, but only a small percentage of the population purchase it. Family is important, and often steps in, but little planning takes place for such help.
- People need a wide range of help, sometimes over a long time. The needs increase with increasing age. Some people need help with managing finances, particularly if they experience cognitive decline.
- Much of the needed help is with household tasks such as driving, housework and shopping. Most of this help is not continuous, and often people have some flexibility in scheduling. Families and friends often provide such help.
- Other help involves activities of daily living. This can require assistance or availability on a 24/7 basis, and the care can be very intensive in some cases. Once again, families do provide some of this help at home or bring paid aides into the home. In more situations, the individuals go to assisted living or a nursing home to get this care. There is often a progression of need, but this research did not provide insights on the progression.
- Some people need help with managing medication, managing medical care, going to doctor's appointments, and dealing with the medical system.

COVID-19 AND LONG-TERM CARE

COVID-19 has created major challenges for people who need long-term care regardless of whether it was provided in a nursing home, in assisted living, at home with paid caregivers or at home by family. It also has created challenges in getting regular medical care. Results in some nursing homes have been particularly difficult, with many deaths and family unable to visit or help their loved ones. The SOA reports *Impact of COVID-19 on Senior Housing and Support Choices* and *Impact of COVID-19 on Family Dynamics in Retirement* discuss some of the issues.

It seems quite likely that U.S. society will explore new ways to deliver care and that there may be different options in the future.

FINANCIAL SHOCKS AND UNEXPECTED EXPENSES

SOA researchers explored financial shocks and unexpected expenses, including individual and societal shocks in 2015, both in focus groups and in the 2015 Post-Retirement Risk Suvey. This topic seemed very important because, for many people, planning focused primarily on the expected. Retirees were able to make adjustments and deal with unexpected expenses in a number of areas but not major long-term care events requiring paid care, divorce after retirement, or helping children requiring significant long-term support. The age 85 and over research also included some emphasis on shocks. A major long-term care event was the shock with the most emphasis in this study, and the retirees seemed less concerned about other shocks by these ages.

The societal shocks explored included the Great Recession. As indicated above, more than 10 years later, one-third of retirees said that the great recession had an impact on their retirement.

COVID-19 has affected the daily lives of almost all Americans. It may have a major impact on the retirement security of many people, but it is too early to know how many and what impact it will have.[7]

HOW ASSETS CHANGE DURING RETIREMENT

The SOA research offers a detailed look into what people say about their retirement experience at different points in time but does not track assets. The picture that has emerged is a fairly consistent story of older people striving to retain assets and not spend them down. Several sources have added to this body of knowledge by looking at data from the HRS research to see how events change assets that older people hold. This has been very helpful because it allowed the SOA research team to compare their findings with the research based on national databases. Some of the findings from that research follow.

One analysis[8] of HRS data examined asset pathways from first entry into the HRS database to the end of life. That analysis zeroed in on the question of what circumstances and events lead to low assets at the end of life.

In that paper, Poterba, Venti and Wise found that wealth level at first entry into the HRS[9] was a major factor contributing to wealth level at the end of life. In fact, the biggest pathway to low assets at death was low assets at entry into retirement. However, some types of events, including widowhood, divorce and major health events, also contributed to substantial drops in assets. In addition, some people entered retirement with some accumulated assets and then outlived them.

An additional paper[10] by Poterba, Venti and Wise found little probability of drawing down assets in the first 15 years after age 65. The data for that paper included mostly people who died before age 80. Two-thirds of respondents who were observed at age 65 and one year before death and who had less than $50,000 of net worth at death had low asset levels at age 65. The researchers found that education and lifetime earnings were big factors in determining wealth later in life. Another finding was that asset declines, particularly among people with higher assets, were due to major health events and loss of a spouse.

These results are consistent with a study from the Government Accountability Office (GAO), *Retirement Security: Women Still Face Challenges*,[11] that showed estimated effects of life events on household assets and income by gender. As shown in Table 2, becoming divorced or separated had the biggest impact, followed by becoming widowed. Becoming unemployed and experiencing a health decline were associated with much smaller reductions in assets and income. (Note: The GAO analysis uses the HRS, so it covers adult ages starting around 50 and older. It is different from some of the other work that focuses on older ages. Retirees were not separated from pre-retirees.)

In looking at widowhood, the GAO study found large declines in assets and household income. This seems somewhat inconsistent with findings from the SOA focus groups and post-retirement risk surveys. Not many people in the SOA research said they are significantly worse off following death of a spouse. Instead, the group was split between those who said they were worse off and those who said they were better off financially.

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7 The Society of Actuaries is planning for a Generations Survey, and the 2021 Risk Survey at the time this report is being drafted. Both will offer insights on COVID-19 and retirement security, but there will still be much more to learn because the pandemic is still underway.

8 James Poterba, Steven Venti and David A. Wise, *What Determines End of Life Assets? A Retrospective View*, NBER Working Paper 21682, October 2015.

9 Individuals were as young as the early 50s age range at entry into the HRS in 1992, but some people were older. The paper looks at results by age at entry into the study.

10 James Poterba, Steven Venti and David A. Wise, *Longitudinal Determinants of End-of-Life Wealth Inequality,* NBER Working Paper 23839, revised May 2018.

11 Report number GAO-12-699, *https://www.gao.gov/products/GAO-12-699*.

Feelings and a quantitative measure of money may not equate with one another, however. For example, a surviving spouse who had to care for a spouse with limitations may feel better off following the ailing spouse's death, even if the situation is worse economically. A factor to keep in mind is that, depending on the situation, expenses may change when there is only one person. For instance, a one-person household may have average expenses of about 75% of the two-person household. Each situation is different, however.

Table 2

ESTIMATED EFFECTS OF LIFE EVENTS ON ASSETS AND INCOME

	Change in Total Household Assets		Change in Total Household Income	
	Women	Men	Women	Men
Became divorced or separated	−41%	−39%	−41%	−23%
Became widowed	−32	−27	−37	−22
Became unemployed	−7	−7	−9	−7
Health declined	−8	−10	−4	−3

Source: Table 1 of GAO Report 12-699, *https://www.gao.gov/products/GAO-12-699*, p. 28. Results based on GAO analysis of HRS.

COVID-19 AND RETIREMENT ASSETS

At the time this report is being drafted, it is not known how COVID-19 will affect retirement assets in the long term. As of late 2020, equity markets experienced a serious decline earlier in the year but have mostly recovered with significant fluctuation. Interest rates are very low. Many challenges face the economy, and the pandemic has ensued longer than many initially anticipated. It will be at least two to three years until the data on personal assets will be available to researchers.

HOUSING

Nonfinancial assets, primarily housing, have a greater value than financial assets for many middle-income retirees. In addition housing is the largest item of expense for many retirees. Most people want to stay in their homes, and most do not want to sell them or take a reverse mortgage. Some are unable to stay in their home because of physical limitations, affordability or location. Table 3 provides data on housing arrangements at different ages.

Table 3

LIVING ARRANGEMENTS FOR OLDER MEN AND WOMEN, 2014

Type of Arrangement	Women Ages 65–84	Men Ages 65–84	Women Age 85 and Up	Men Age 85 and Up
Nursing home or other group quarters	2%	2%	13%	8%
Unmarried, living with other family or nonfamily	8	7	7	6
Unmarried, living with own children	13	4	23	10
Living with spouse	46	69	12	49
Living alone	30	17	46	27

Notes: Numbers may not add to 100% because of rounding. Older adults who are living with a spouse may also be living with children or other relatives or nonrelatives.

Source: Renee Stepler, *Smaller Share of Women Ages 65 and Older Are Living Alone, More Are Living With Spouse or Children*, Pew Foundation, 2016; data based on the Pew Research Center analysis of 2014 American Community Survey.

HOUSING AND COVID-19

Many retirees own homes where they have lived for a long time. Many others own homes in age 55 plus or other senior communities. There are also a number other specialized housing arrangements, some of which include care. It appears that choices with regard to location may change, in part as a result of COVID-19 and changing work arrangements. Some people have moved out of the city to suburbs, smaller cities or more rural locations. Housing values have risen in some areas, and overall the market is strong. However, for those families that rent, the situation may be very difficult. They have been protected from eviction for the time being, but many are likely to face eviction unless there is further protection. The people who are most likely to have lost jobs often are those with lower assets and also are often renters. Many young adults have moved in with parents. Homelessness is also predicted to increase.

Specialized senior housing has many issues related to COVID-19. A variety of different choices exist. Some include support as well as activities and group dining. Major challenges with COVID-19 have confronted such housing because the activities and dining arrangements may contribute to the spread of the disease. In addition, staff may have been a source of cases, and once someone is infected, it can easily spread.

Life in such housing changed radically during the pandemic. It seems likely that considerations for choosing housing will change as a result of COVID-19. The SOA has explored these issues in the report *Impact of COVID-19 on Senior Housing and Support Choices.*

It is unknown how housing options and decisions will change in the future, but some of the members of the SOA Post-Retirement Needs and Risks Committee predict more multigenerational households. It also seems possible that people will design housing for multigenerational families with more separation. It also seems very possible that some of the housing choices may change, and there may be new models of senior housing.

U.S. VS. CANADA

The SOA focus groups and in-depth interviews covered the U.S. and Canada. The surveys were done in the U.S. only. Other projects have included Canada.

People living in the U.S. and Canada have many similarities in their demographics, retirement journey, spending and retirement patterns, but some key differences are found as well. The market for long-term care services is quite different in Canada, and the services are less expensive. Health care financing is very different in the two countries, since Canada has national health insurance while the U.S. has a mixed structure combining private insurance, Medicaid, Medicare and the Veterans Health Administration programs.

The Changing Environment and Questions for the Future

Retirees are influenced by major events such as the Great Recession and the COVID-19 pandemic. They can also be influenced by a variety of other disruptions such as hurricanes, localized real estate market changes and other unexpected events. The SOA has not explored the links between climate change and retirement, but that will likely be a future research topic.

Retirees are also influenced by many ongoing gradual changes. Future retirees will have experienced a different employee benefit system than today's retirees. Over the last 30 years, a massive long-term shift occurred, moving retirement planning away from defined benefit retirement plans and toward defined contribution plans. Even so, many of today's retirees are receiving benefits from defined benefit plans. This is significant because defined benefit plans encourage retirement at specific ages and pay out benefits as monthly lifetime income, but defined contribution plans do not. This means that more future retirees will enter "retirement" at different ages and in different ways, such as phasing into retirement.

Demographic changes are also important. Over the longer term, life spans have increased while fertility rates declined. There will be an overall increase in the percentage of the population in the older age groups. The age mix of U.S. society is changing, and today's older group is more likely to have children and live near them. Future cohorts may have fewer children and be less likely to live near them. The values of each cohort are shaped partly by the period when they grew up. It is unclear how retirement ages may adapt to these demographic changes.

Many countries have witnessed major increases in life spans over the last 100 years. However, after experiencing mortality improvement in the U.S. for decades, some demographic groups in the country, particularly lower-middle-income Americans, have experienced recent increases in mortality rates. The continuing opioid epidemic, rising suicide rates and increase in violence have contributed to some of this increase. Going forward, experts predict mortality will improve once again due to medical advances and other factors, but there is no consensus about how rapidly those improvements will come. It is unclear whether COVID-19 will have a material impact on life spans going forward.

During the last 25 years, globally retirement ages in public benefit programs such as Social Security have increased somewhat, but they have not kept up with the changes in longevity. The trend to defined contribution plans has extended beyond the U.S., with benefit patterns varying by country. State and local governments are more likely to offer defined benefit plans, and some of these plans had problems before the pandemic. The pandemic has significantly impacted state and local governments, and the problems of these retirement plans will likely increase, in some cases, a great deal. Periods of retirement generally continue to grow. In the U.S., some individuals have chosen to work longer, and the ages at exit from the labor force have been rising slowly. More people are trying to work as part of retirement.

These changes raise many questions about the aging of baby boomers and the next generations:

- What will be the longer-term impact of COVID-19 on how and when we retire?
- How long will people work, and what opportunities will there be for people to work in retirement?
- How long will people live? What will be the differences in life expectancy for different groups?
- How will society adapt to a much larger population at very high ages?
- What services will be provided, and who will pay for them?
- Will individuals at high ages in the future be as frugal as current retirees are?
- How resilient will they be?
- Will they rely on families in the same way?
- Will there be more multigenerational households?
- How will long-term care be delivered?
- What alternative housing arrangements will be available for them?

Areas for Future Research

Much SOA research focuses on improving the overall functioning of the retirement system and the security of citizens. Future research will need to address some gaps and areas for future change, such as those listed here:

How much is enough: The discussion of spending, retirement ages and how people move through retirement encourages us to revisit traditional planning models.

How to position people to use a defined contribution system effectively: Defined contribution plans require many personal choices, but there are many gaps in knowledge. Some people will use advisors, but many do not plan well with or without advisors.

How and when we retire: The population is aging, and periods of retirement are lengthening. Many people reach retirement age without adequate resources. Defined contribution plans do not include incentives to retire at particular ages. Many people want to work as part of retirement.

How technology fits in: Technology seems to have changed many aspects of society, and its effect on daily lives was accelerated with COVID-19. It is unclear how the daily lives of Americans will have changed when the COVID-19 pandemic is stabilized or over. But there is significant potential for further change involving technology.

Families and their role in pooling risk and in retirement: Future retirees will have fewer children than today's retirees. Many people live far away from their families. But families still play an important role in retirement. The way multiple generations interact also is likely different for different ethnic groups.

Blended families: Many American families today are blended families, but they are not as prevalent for today's retirees as they are in younger demographics. Some blended families were blended when the children were young, and some much later. Since adult children have traditionally been a major source of help to adults at high ages, questions have surfaced about whether and how blended families will provide such help. For example: Will blended families feel the same obligations and be as helpful to both parents? Will stepchildren be helpful to the stepparent after their natural parent dies? Further research is needed on the topic of blended families and family support and help.

Solo agers: Many people do not have family members available to help them. Research is needed to understand the prevalence of solo agers, the issues they face and the types of resources needed to meet them.

Race and ethnicity: Disparities exist in retirement well-being by race and ethnicity. Although some of the disparities simply reflect differences in economic status, others may not. Research is needed to better understand the disparities and potential ways to remedy them.

How Medicaid fits in: A minority of Medicare beneficiaries are also covered by Medicaid. But Medicaid is an important payer of long-term care, so research is needed to identify the associated financing issues as well as what families need to know in this area. Medicaid is under a great deal of financial pressure, and it will likely need to change.

Housing patterns: Housing is a very important part of retirement, and most people want to grow older in their own homes. There are a variety of housing options available to families and a variety of senior housing communities that offer different options for services, activities and supports. Housing can be owned or rented, and rental housing is another possible area for change. Housing is an area for innovation.

Preparing for cognitive decline: The SOA research has identified several questions in connection with how to prepare for the potential of cognitive decline, how to identify it and then how to address it once it happens. The issues range from legal to financial and family-related.

Innovations in care: Researchers could help identify where innovations are needed for in-home care, long-term care and housing for the older age group, as well as related issues for providers, seniors and their families.

Fraud: The important areas for future study continue to be on ways to prevent and deal with financial abuse, fraud and exploitation in the 85 and over population

Aftermath of COVID-19: Depending on what happens with vaccines and therapeutic treatments that are under development, the world may be quite different after COVID-19. The changes made to adapt to the pandemic may result in further, and possibly permanent, changes. It is likely that these will impact both the daily lives and financial situation of people as they live in retirement.

Final Thoughts

SOA research has provided a great deal of insight into the Journey Through Retirement and into typical life paths of individual retirees as well as influences that affect entire cohorts of retirees. Under today's retirement patterns, many people will be retired for a long time, and they will experience a number of changes.

Those who start in good health are likely to experience several periods of retirement with different levels of activity and interest patterns. We have described these periods as go-go, slow-go and no-go. For those couples who experience these paths at a different time, the stories are very different. It is hoped that the SOA research projects, and this summary, help readers better plan for their future.

It is clear that further changes in the system are coming, and the report has also identified ideas for future research to address them.

Appendix

MORE ABOUT THE RESEARCH

The SOA research team has based its insights on robust research designed to increase understanding of the way Americans manage their post-retirement finances and to help improve the management of the risks. The 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 the following:

- **Biennial risk surveys:** Surveys of the knowledge and attitude of Americans age 45 to 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 and shocks. Surveys have been 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 to help provide input into questions and structure of surveys. Projects were conducted in 2005, 2013, 2015 and 2017.
- **Consumer information:** Gaps in knowledge are a key finding of the research, so the SOA Post-Retirement Risk 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 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 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.

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Essays and Papers

Impact of COVID-19 on Aging and Retirement Essay Collection

Will Retirement Change Due to COVID-19? , by Linda Koco

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ACCESS THE REPORTS

The full reports are available for download at the SOA website: *http://www.soa.org/research/topics/aging-ret-res-report-list/*.

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 ideas are not the opinions of the Society of Actuaries or any committee thereof.