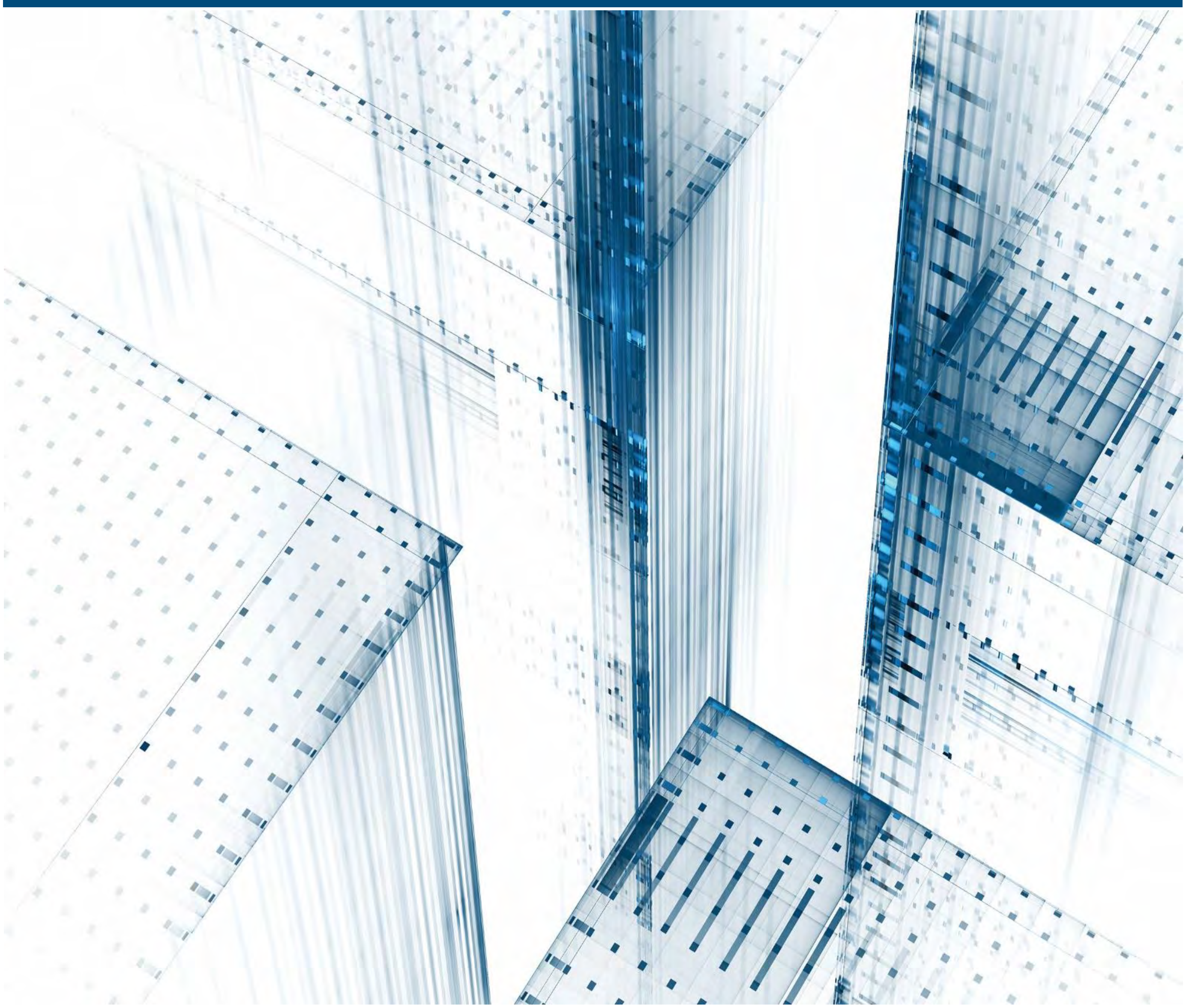
Aging and Retirement

Financial Risk Concerns and Management Across Generations



November 2018

The Society of Actuaries (SOA) has studied the financial knowledge, priorities and strategies of Americans in and nearing retirement for close to 20 years. Previous studies by the SOA found that among a list of post-retirement risks, both pre-retirees and retirees are most concerned about their savings keeping up with inflation, having enough money to pay for a nursing home or long-term care if needed, and affording quality health care. In general, pre-retirees were more concerned about risks than retirees, but both groups feel susceptible to financial setbacks caused by events out of their control. Retirees can be more vulnerable to financial risks, since many have not conducted basic financial-planning steps.

To investigate these issues further, questions on financial risks were included in a large multigenerational survey as part of the SOA's new Aging and Retirement research program. In this study, we see similar concerns about retirement risks echoed across all ages, and in many cases, the younger generations are even more concerned than the older generations.

This report explores how five generations of Americans assess and prepare for financial risks of events that have a high likelihood of impacting financial security in retirement. Past research indicates there are gaps in financial literacy, and many lack awareness of some risks, especially those that are longer term or occur later in life. This report includes insights into areas where concerns about risk are not aligned with the reality facing retirees. For instance, there are high levels of concern around long-term care, yet few people are planning for this. On the other hand, Medicare and availability of supplemental coverage make high concern around most health care expenses after age 65 less necessary.

This report, which analyzes financial risk management, is the fourth in a series of five generations of adult Americans. As part of its new Aging and Retirement research program, the Society of Actuaries engaged Greenwald & Associates to survey 2,001 individuals, including 398 Millennials (ages 20–38), 399 Gen Xers (ages 39–53), 403 Late Boomers (ages 54–63), 401 Early Boomers (ages 64–72) and 400 members of the younger portion of the Silent Generation (ages 73–83). Key financial issues around financial goals, concerns and retirement preparedness were examined. A full report with detailed data by generation can be found at https://www.soa.org/research-reports/2018/financial-perspectives-aging-retirement/.

Areas of Risk

Retirees face many financially related risks, including living longer than their financial resources, a major long-term care event, investment and inflation risk, and unexpected medical expenses. Some concerns around retirement-related risks are consistent across each generation, while others, such as the ability to deal with unexpected expenses, vary by age.

There is a significant amount of variation on how much planning and preparation individuals undertake to withstand financial risks. Some plan extensively and focus on protecting against specific risks by creating investment strategies and buying insurance products such as long-term care coverage. Others do not plan for individual risks but build up a general emergency fund should the unexpected occur. And there are those who choose to deal with the risks if and when they occur.

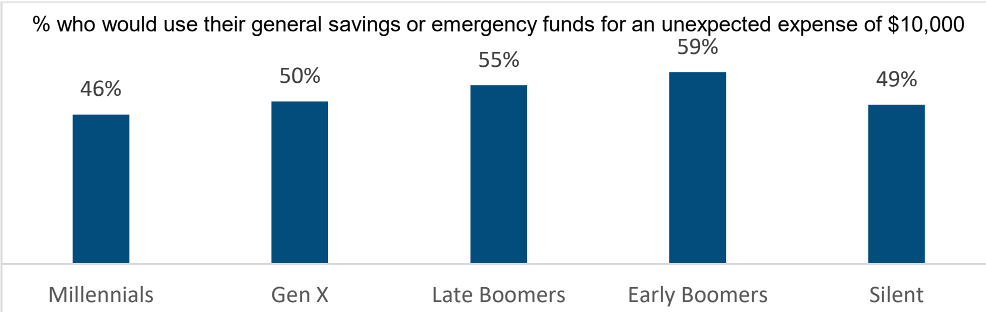
Unexpected Expenses

The ability to handle unforeseen expenses increases with age, peaking with Early Boomers and then declining for the Silent Generation. Six in 10 Early Boomers say they could afford a $10,000 expense using their savings or emergency funds (Figure 1). Only 46% of Millennials would use their savings, not surprising since they have lower assets and more competing financial priorities. Those in the Silent Generation are particularly vulnerable, with half not being able to use their savings for an unexpected

$10,000 expense. This is consistent with and may be reflective of the fact that only half of all respondents are prioritizing building up an emergency fund to safeguard against unexpected expenses.

Figure 1

AFFORDING UNEXPECTED EXPENSES

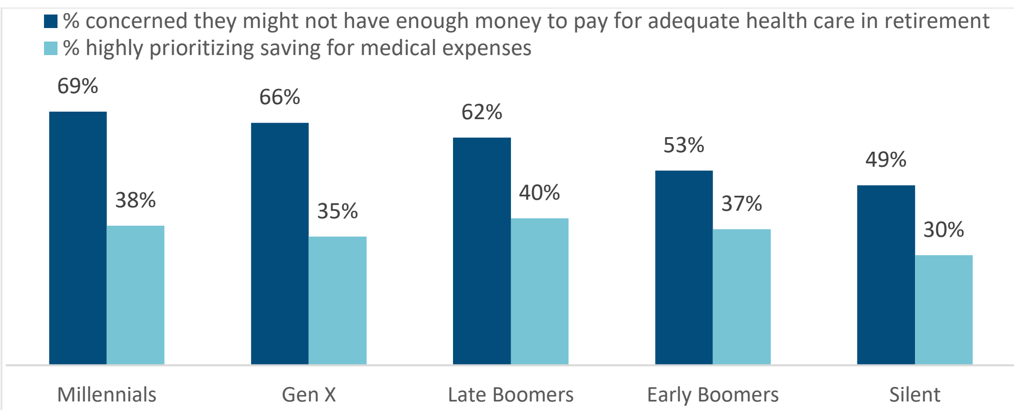


If you had an unexpected expense of $10,000 that had to be paid immediately, how would you cover it? (Millennials, *n* = 398; Gen X, *n* = 399; Late Boomers, *n* = 403; Early Boomers, *n* = 401; Silent, *n* = 400)

Unexpected health care costs, which are difficult to estimate when planning for retirement, are of high concern. As seen in Figure 2, concern over having enough money to pay for adequate health care in retirement is high across all generations but does decrease with age. Yet, in total, saving for medical expenses is currently a high priority for only 36% of all respondents.

Figure 2

CONCERN OVER HEALTH CARE AND SAVING FOR MEDICAL EXPENSES BY GENERATION



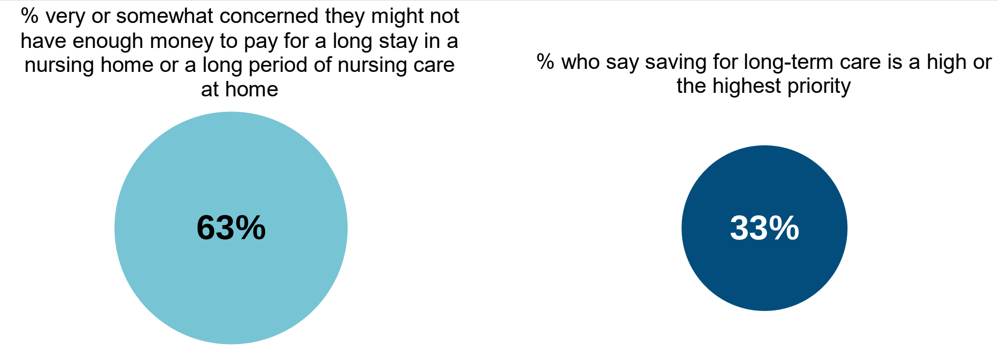
How concerned are you about each of the following in retirement? Thinking of your current financial situation, how much of a priority is each of the following? (Millennials, *n* = 398; Gen X, *n* = 399; Late Boomers, *n* = 403; Early Boomers, *n* = 401; Silent, *n* = 400)

The relative levels of concern around health care do not reflect the reality of the insurance coverage that most people have after the age of 65. For these retirees over age 65, Medicare and a supplement, or a Medicare Advantage plan, will cover most medical care expenses while dental, hearing and many vision expenses are not covered. However, concern about health care cost for retirees younger than 65 may be justifiable since they are yet to have access to these benefits and may not be aware of what they cover.

Long-term Care

Prior SOA research shows that a major long-term care event can derail retirement security, but most people fail to plan for such an event and few have insurance or specific savings for long-term care risks. This study again shows that there is a misalignment between financial fears associated with long-term care and steps taken to address this risk. 63% of respondents are worried they might not have enough money to pay for a long period in a nursing home, yet saving for long-term care is a high priority for just one-third of respondents (Figure 3).

Figure 3
LONG-TERM CARE: PRIORITY VS. CONCERN

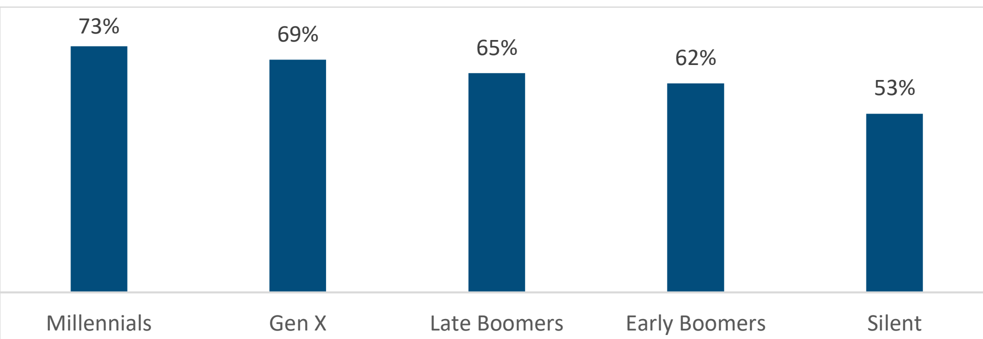


Thinking of your current financial situation, how much of a priority is each of the following? How concerned are you about each of the following in retirement? (Millennials, *n* = 398; Gen X, *n* = 399; Late Boomers, *n* = 403; Early Boomers, *n* = 401; Silent, *n* = 400)

Inflation

Two-thirds of respondents are concerned that the value of their savings and investments might not keep up with inflation in retirement (Figure 4). This concern also decreases with age, with almost three-quarters of Millennials, compared to just over half of the Silent Generation, expressing high concern over inflation. As Millennials have the longest time until retirement, and thus greater uncertainty, their concern over inflation risk is understandable.

Figure 4
CONCERN OVER INFLATION IN RETIREMENT



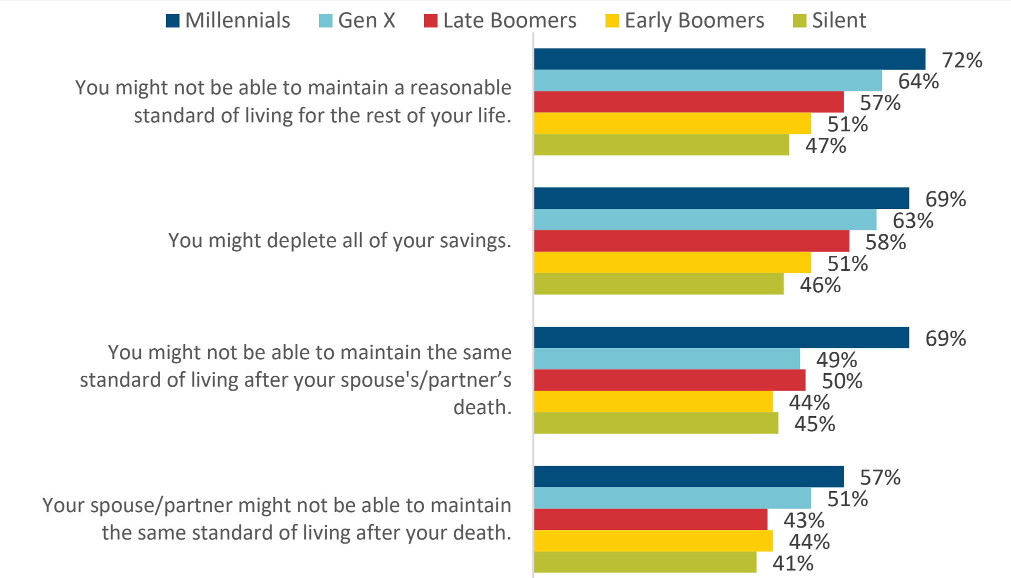
How concerned are you about each of the following in retirement? (Millennials, *n* = 398; Gen X; *n* = 399, Late Boomers; *n* = 403; Early Boomers, *n* = 401; Silent, *n* = 400)

Longevity

While living longer than expected is desirable, it presents a financial risk because the longer retirement lasts, the more it costs. Also, a long life increases the likelihood of other risks, such as an increased need for long-term care or having high medical costs. Specifically, 63% of all respondents are concerned with not being able to maintain a reasonable standard of living for the rest of their lives and 61% are concerned with depleting all of their savings; both concerns decrease with age (Figure 5).

Figure 5

LONGEVITY CONCERNS IN RETIREMENT



How concerned are you about each of the following in retirement? (Millennials, *n* = 398; Gen X, *n* = 399; Late Boomers, *n* = 403; Early Boomers, *n* = 401; Silent, *n* = 400)

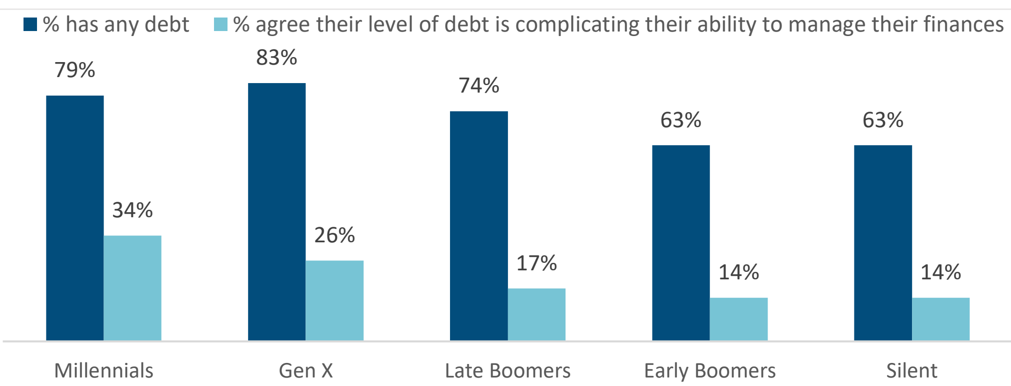
In addition, being able to maintain a certain standard of living after the death of a spouse or partner is a concern of 55% of all respondents. Half are also concerned about their spouse or partner maintaining their standard of living should they die first. Millennials are more worried about their own standard of living, with seven in 10 expressing high concern they might not be able to maintain the same standard of living after the death of their spouse or partner.

Debt

Debt can be a major barrier to achieving financial security, with high levels of debt becoming a big issue if it is not resolved prior to retirement. One-quarter of all respondents indicate their level of debt is complicating their ability to manage their finances (Figure 6). Older generations are less likely to indicate this and are also more likely than younger generations to say they have no debt.

Figure 6

DEBT AND ABILITY TO MANAGE FINANCIALS BY GENERATION



Note: Any debt is shown in this figure. Respondents may have more than one type of debt.
What types of debt do you currently have? Please indicate the extent to which you agree or disagree with the following statements. (Millennials, *n* = 398; Gen X, *n* = 399; Late Boomers, *n* = 403; Early Boomers, *n* = 401; Silent, *n* = 400)

Fraud

Being a victim of fraud or scam is a retirement concern for half of respondents. In particular, Millennials and Late Boomers are most concerned (57% and 52%, respectively), while those in the Silent Generation are not particularly concerned about this risk, with one-quarter not at all concerned. The levels of concern about fraud do not reflect the reality, as there were 2.7 million fraud, identity theft and other scams reported in 2017 that impacted people of all ages, resulting in higher financial loss for older generations.[1]

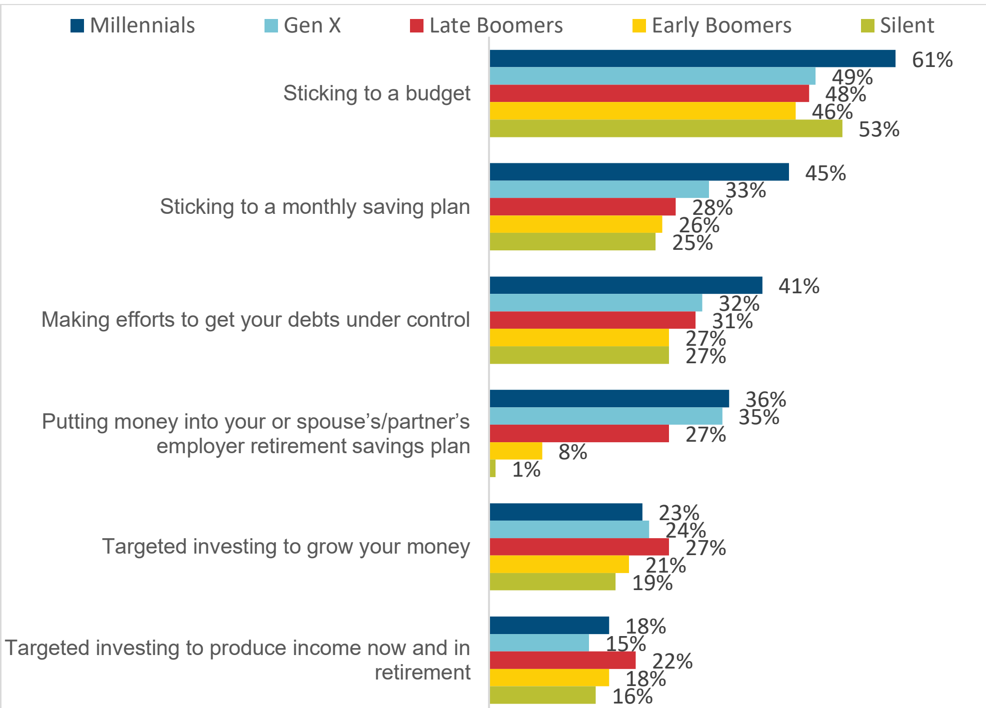
Risk Awareness and Management

There are many ways to manage the various risks that can hinder financial security in retirement. For those already or close to being retired, it is important to not only be aware of these areas of risk but also to understand how to address them. For younger generations faced with a variety of financial issues, taking steps to address their current priorities appropriately can help manage future financial risks as well.

Sticking to a budget and a monthly savings plan can help mitigate the risks of unexpected expenses and longevity later in life. Currently, 61% of Millennials are sticking to a budget and another 45% are sticking to a monthly savings plan, both higher than older generations (Figure 7). Interestingly, members of the Silent Generation have a higher likelihood than Gen Xers or Boomers of sticking to a budget.

Figure 7

METHODS OF ADDRESSING FINANCIAL PRIORITIES THIS YEAR BY GENERATION



Which of the following things are you doing this year to address your financial priorities? (Millennials, *n* = 398; Gen X, *n* = 399; Late Boomers, *n* = 403; Early Boomers, *n* = 401; Silent, *n* = 400)

---

[1] Federal Trade Commission. *Consumer Sentinel Network: Data Book 2017. www.ftc.gov/system/files/documents/reports/consumer-sentinel-network-data-book-2017/consumer_sentinel_data_book_2017.pdf.*

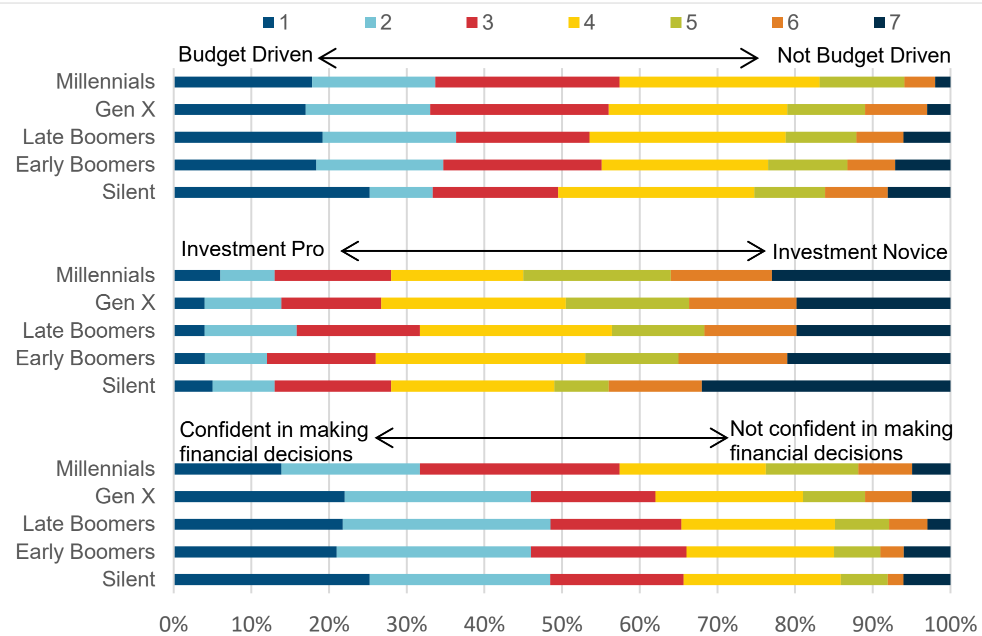
Across all generations, one-third are making efforts to get their debts under control, with Millennials much more likely to be doing so. Addressing debt, especially those with high interest rates prior to retirement, can alleviate pressure on savings and emergency funds and allow more focus on other risk management strategies.

Putting money into an employer-sponsored retirement plan is a strategy about three in 10 Millennials, Gen Xers and Late Boomers are employing currently. In addition, targeting investments to grow money and produce income both now and in retirement is a strategy often being employed by Late Boomers, the majority of whom are gearing up for retirement.

Only about half across all generations consider themselves budget driven (Figure 8). Additionally, few from any generation consider themselves to be "investment pros." Interestingly, members of the Silent Generation, who have been managing investments for the longest period of time, are most likely to describe themselves as investment novices.[2] Yet confidence in making financial decisions increases with age, perhaps partially explaining the lower level of concern for the older generations.

Figure 8

BUDGETERS AND INVESTMENT PROS BY GENERATION



Please check the box that best describes where you stand in the continuum between each of the following pairs of opposing words. (Millennials, *n* = 398; Gen X, *n* = 399; Late Boomers, *n* = 403; Early Boomers, *n* = 401; Silent, *n* = 400)

[2] Includes those who ranked themselves as a 6 or 7 on a 7-point scale.

Conclusion and Perspective

Americans in each generation express a high degree of concern about several financial risks they face in retirement, yet their actions often do not align with their concerns. Many are not planning for the long term and are not taking advantage of available strategies to protect themselves against the risks they face, as relatively few use formal risk management approaches or products.

When this research is considered together with earlier SOA research, several conclusions are evident:

- Some people are more confident than may be justified by their financial situation.
- It is common for people to plan for the shorter term and focus on cash flow necessary to pay for immediate regular expenses. Many people are not focused on unexpected expenses and managing potential longer-term risks.
- Across all generations, there is high concern around retirement risks, yet this is often not translated into action to protect against risk.
- Retirees say they will deal with risks if and when they happen. To offset their concerns, retirees are trying to hold on to their assets rather than spending them down.
- The combination of Medicare and supplemental coverage prepares those age 65 and older well for most medical expenses, but these expenses can be a challenge for retirees younger than 65 years old.
- Long-term care is a major risk for which the majority have no plan. Medicaid offers a safety net for individuals whose assets do not exceed specifically stated requirements.
- Across all generations, many do not have adequate emergency funds.

A key goal of this body of research is to increase knowledge and encourage action to help individuals effectively protect against the financial consequences of each risk. It is our hope that the insights this research has provided about each generation will lead to further efforts to educate individuals on the key steps to financial security and enhanced protection against adverse events that pose a threat to that security.

Methodology

The report presents the results of research conducted by Greenwald & Associates, on behalf of the Society of Actuaries. Using Research Now's panel, Greenwald conducted an online survey of 2,001 individuals: 398 Millennials, 399 Gen Xers, 403 Late Boomers, 401 Early Boomers and 400 Silent Generation. The survey was conducted from July 17 through July 27, 2018.

About The Society of Actuaries

The Society of Actuaries (SOA), formed in 1949, is one of the largest actuarial professional organizations in the world dedicated to serving 32,000 actuarial members and the public in the United States, Canada and worldwide. In line with the SOA Vision Statement, actuaries act as business leaders who develop and use mathematical models to measure and manage risk in support of financial security for individuals, organizations and the public.

The SOA supports actuaries and advances knowledge through research and education. As part of its work, the SOA seeks to inform public policy development and public understanding through research. The SOA aspires to be a trusted source of objective, data-driven research and analysis with an actuarial perspective for its members, industry, policymakers and the public. This distinct perspective comes from the SOA as an association of actuaries, who have a rigorous formal education and direct experience as practitioners as they perform applied research. The SOA also welcomes the opportunity to partner with other organizations in our work where appropriate.

The SOA has a history of working with public policy makers and regulators in developing historical experience studies and projection techniques as well as individual reports on health care, retirement and other topics. The SOA's research is intended to aid the work of policymakers and regulators and follow certain core principles:

Objectivity: The SOA's research informs and provides analysis that can be relied upon by other individuals or organizations involved in public policy discussions. The SOA does not take advocacy positions or lobby specific policy proposals.

Quality: The SOA aspires to the highest ethical and quality standards in all of its research and analysis. Our research process is overseen by experienced actuaries and non-actuaries from a range of industry sectors and organizations. A rigorous peer-review process ensures the quality and integrity of our work.

Relevance: The SOA provides timely research on public policy issues. Our research advances actuarial knowledge while providing critical insights on key policy issues, and thereby provides value to stakeholders and decision makers.

Quantification: The SOA leverages the diverse skill sets of actuaries to provide research and findings that are driven by the best available data and methods. Actuaries use detailed modeling to analyze financial risk and provide distinct insight and quantification. Further, actuarial standards require transparency and the disclosure of the assumptions and analytic approach underlying the work.

Society of Actuaries
475 N. Martingale Road, Suite 600
Schaumburg, Illinois 60173
www.SOA.org