SOCIETY OF ACTUARIES

# KEY FINDINGS AND ISSUES: Understanding and Managing the Risks of Retirement

>> July 2010

## 2009 RISKS AND PROCESS OF RETIREMENT SURVEY REPORT

Actuaries
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# Introduction and Background

**LIVING MUCH LONGER** than their parents' generation, today's retirees are spending more time in retirement than in the years planning for it. Not too long ago, retirement planning as a structured process consisted primarily of actions taken and decisions made in the years leading up to the event itself. Starting in the mid-1990s, the Society of Actuaries recognized the need to focus on the entire spectrum of risks with which retirees contend with after they retire. The Retirement Needs Framework Project was instituted to address these risks, and the outgrowth of this project has been a series of surveys conducted biennially since 2001 on the SOA's behalf by Mathew Greenwald and Associates, Inc. and the Employee Benefit Research Institute (EBRI).

This report covers the results of the most recent survey taken in 2009. It presents the survey itself, a description of the respondents, and highlights of the survey findings. It also includes a number of observations about the risks with which retirees must contend, and how well prepared they are to confront these risks in a rapidly changing economic and financial environment; perspectives on the survey results that seem especially pertinent to retirement professionals; and recommendations for improving the general public's ability to address the challenges they will confront as they plan for and actually experience retirement. The complete survey report is available at *www.soa.org.*

## The Survey

The 2009 Risks and Process of Retirement Survey asked respondents about a number of risks relating to retirement. Their preponderant concerns related to keeping the value of investments up with inflation, income varying due to changes in interest rates, the affordability of health care and long-term care, outliving assets, and maintaining a reasonable standard of living. In most respects, Americans' concerns changed little from 2007. This report provides an overview of these post-retirement risks, how they are perceived, and ways to protect against them. It presents key findings on the major retirement risks explored in the 2009 survey and provides context for the results in relation to other studies. Additional reports will cover women's issues, the impact of the economy, and personal risk management strategies.

The survey is designed to evaluate Americans' awareness of retirement risk, how their awareness has changed, and how their awareness affects the management of their finances. The survey was conducted through telephone interviews of 804 adults age 45 to 80 (401 retirees, 403 pre-retirees) in July 2009. Households were selected for participation from a nationwide targeted list sample. The margin of error for study results, at the 95-percent confidence level, is ±5 percentage points for questions asked of all retirees or all pre-retirees.

To further the understanding of changes in perception of risk, this series of surveys includes new questions with each iteration and not all questions are repeated from year to year. For a balanced perspective, the discussion sections in this report include input from all organizations that supported the studies and material from other related research.

## The Respondents

Like its predecessors, this survey divided respondents into two groups, referred to throughout this report as "pre-retirees" and "retirees," with each group analyzed separately, irrespective of their actual age. In fact, half of retirees retired before the age of 60, while a small minority of pre-retirees continue to work into their 60s and even 70s. The results of the report are based on a representative sample of Americans and do not provide specific insights into high net worth individuals.

Only 3 percent of retirees and 5 percent of pre-retirees report having $1 million or more in savings and investments, and 6 percent each of retirees and pre-retirees report having between $500,000 and $1 million. Eleven percent of retirees and 35 percent of pre-retirees indicate they have household incomes of at least $100,000. At the low end of the spectrum, 24 percent of retirees and 22 percent of pre-retirees indicate they have less than $25,000 in savings and investments, while 18 percent of retirees and 6 percent of pre-retirees report income under $25,000. These net worth and income characteristics are not out of line with those for Americans as a whole. Readers will find a more detailed profile of the demographic characteristics of survey respondents on pages 23-24.

## Highlights of the Survey Findings

As with prior surveys in this series, the two principal concerns of both pre-retirees and retirees centered on the consequences of not being able to keep the value of their savings and investments up with inflation, and their inability to pay for adequate health care. Concerns over investment income and asset values were particularly significant in this, the first in the series of surveys that reflected respondents' reactions to the economic and financial turmoil of 2008-09. These events served to exacerbate concerns expressed in previous surveys over not being able to maintain a reasonable standard of living for themselves and for their surviving spouses, and the risk of outliving their savings. Most of the concerns over health care were the inability to keep up with rapidly inflating medical costs, and not having enough money to pay for an extended period of nursing care or other forms of assisted living.

Also as in prior years, pre-retirees were much more concerned about risk than retirees. Pre-retiree perceptions also seem to be more subject to change based on economic circumstances than those of retirees. From 2001-03, there were several adverse events including the September 11 terrorism attacks and bad market conditions. In reaction, risk perceptions of pre-retirees increased significantly; by 2005 they had reverted back to 2001 levels. From 2007-09, market conditions were very difficult, but there was not the same move in risk perceptions as in 2001-03.

And even though respondents indicated that the recent financial crisis and economic volatility had indeed affected how well prepared they were for retirement, the 2009 survey did not show any major changes in the way the public views and plans for retirement. This was very surprising to some members of the oversight group. When asked about what actions they had taken to manage risk, however, a higher percentage of the retirees than in prior years indicated that they had taken actions such as reducing spending. **To sum up, while the crisis had worsened their financial situation, and many retirees reported that they had already tried to cut back on spending and make other lifestyle changes, their views about how to manage these risks appeared hardly affected.**

As noted, health care remains a most important concern of both retirees and pre-retirees. However, it is important to emphasize that the survey was conducted in July 2009, several months prior to major health care legislation passed in 2010. Therefore, the responses on health care concerns need to be interpreted in that context. It is not known whether the discussion about impending health care reform influenced responses to this survey. In its current form, the 2010 legislation creates state insurance exchanges to provide health insurance for those without employer coverage, but it is too soon to know how the implementation of that legislation will affect health care concerns of retirees and those planning for health care coverage in retirement. It is expected that these health care issues will become better understood in the year or two ahead, and that future surveys will further probe this topic.

# Conclusions

**OVERARCHING THE CONCERNS** among the actuaries and other retirement professionals who have worked with these surveys are the enormous gaps in knowledge among the general public about issues that will determine their financial security in their retirement years. Particularly now, with traditional defined benefit pensions in decline, and an increasing percentage of the population having to depend on the proceeds from their IRAs and 401(k)-type plans, focus on risk management over long planning horizons is critical. Nothing about the results in this survey changes these concerns. They should be considered in light of the larger picture emerging in income security in the American workplace in the 21st century:

- Few Americans possess sufficient financial literacy to manage the risks they will face in retirement. Gaps in their knowledge about retirement issues are part of a much larger unfamiliarity with economic forces shaping their wellbeing.

- Many people do not focus well on the long term so the planning horizon has become a major concern. This study indicates that retirees look to a median of just five years into the future when making important financial decisions. Pre-retirees have a slightly longer median planning horizon of 10 years.

- Decisions with respect to financial security are often not made on the basis of a rational economic analysis. Behavioral finance offers insights into how people make decisions and why framing is important.

- One change in particular that illustrates this need for better education in economic analysis is the pronounced move toward the end of the 20th century, away from traditional, defined-benefit pensions to defined-contribution plans and from guaranteed life income to lump-sum payouts. These leave retirees much more vulnerable than those of a generation ago unless they manage their resources well. Yet few planning to manage their own retirement funds seem to understand that this entails not only the investment risk, difficult enough as that is, but that they are, in effect, assuming their own longevity risk. Still as the chart on page 10 shows, fewer than one in five pre-retirees or retirees have already purchased a product or elected a pension option that provides guaranteed income for life.

- There is a major gap in expectations when it comes to expected retirement age and actual retirement age. As in prior surveys in this series, pre-retirees expect to retire at considerably later ages than the age at which most retirees actually did. And as the charts on pages 17-19 show, this difference between expectation and reality affects the increased security that many pre-retirees believe will result from delaying their retirement.

- On the positive side, the chart on page 16 on maintaining healthy lifestyle habits -- one of the surest ways to manage one's health care costs -- shows one of the highest set of percentage responses in the entire survey. If these results are to be believed, fully 84 percent of retirees and 79 percent of pre-retirees are already taking their own health care seriously in this regard.

# Perspectives

**ONE PERSISTENT THEME** of many actuarial critiques of pension plans, both public and private, is that they have not kept pace with the increased longevity of Americans over the past half-century. In 1950, life expectancy at 65 for U.S. males was 12.8 years and for females 15.1; by 2000, those numbers had increased to 15.9 for males and 19.0 years for females, and for males continued to increase at this rate into the 21st century, though for females the advances have been more measured. Yet the normal retirement age for full benefits under U.S. Social Security had remained at 65 from the inception of the plan in 1935 until Congress adopted legislation raising the normal retirement age for full Social Security benefits to a modest 67. Another theme noted throughout the report is the disconnect between when workers say they intend to retire, and when they actually do. More than four in 10 retire before they plan to, frequently with little or no preparation for the financial consequences of early retirement. And even for those who consider their financial security reasonably well secured for a retirement lasting to their life expectancy, there is minimal understanding by the general public of the variability around the average value of life expectancy and the financial consequences of living to extreme old age.

The second major concern of both pre-retirees and retirees is the cost of health care. Despite the fact that most U.S. retirees are now covered by Medicare after age 65, health insurance supplements provided by employers to their retirees have come under increasing cost pressure, and thus have declined as a reliable source of retirement medical coverage. As noted earlier in this report, this survey was completed several months ahead of the major health insurance legislation passed in 2010, so that the significance of these issues will undoubtedly change, although in which direction it is not yet clear. Also, as the chart on p.16 shows, more people claim they are saving for the possibility of large health care expenses, or to pay for long-term care than have actually purchased long-term care insurance.

Underlying these and many other concerns expressed by actuaries about the poor state of preparedness for retirement by so many of the nation's senior citizens is that long-term thinking, a vital factor in such preparation, does not come naturally to most people. As the world of behavioral science increasingly impinges on finance and economics, we are developing a better understanding of the importance of financial literacy in helping people make decisions today that balance the foregoing of immediate rewards for uncertain payoffs in the often distant future. However, outside the financial, economic and actuarial professions, few Americans have the necessary skills for such planning, nor without assistance should they reasonably be expected to fully grasp the long-term implications of such arcane matters as investment and longevity risk, inflation and compound interest.

# Thinking Ahead

**EFFECTIVE RETIREMENT PLANNING TODAY** requires input from a broad spectrum of interests, employers, employees, financial and economic advisors, and government agencies to mention some of the more obvious. The efforts of these various stakeholders need to be better co-ordinated, and the solutions to the challenges that today's retirees are facing lies in developing programs that will work in combination with better financial education for the average person. For most people contemplating retirement the approximation of a "best" solution will require individual education and action combined with support from employers, financial advisors and government agencies responsible for administering Social Security, Medicare and other forms of public insurance to retirees. As in previous surveys in this series, the issues emphasized in this report, especially those affected by the economic and financial turmoil of the recent recession and the emerging scene of health care in light of recent Congressional action, should serve as a call to action for employers, employees and retirees also, to accelerate these efforts. Only then will today's generation of retirees be prepared to meet the challenges they will certainly face in an era most characterized by uncertainty.

# Overview of Post-Retirement Risks

**POST-RETIREMENT RISKS** include those specific to individual retirees: longevity and the risk of outliving assets, declining functional ability, unexpected and catastrophic out-of-pocket medical expenses, loss of a spouse, and change in status of other family members providing or needing assistance. Post-retirement risks also include external conditions, particularly inflation and volatility in financial markets.

Employee benefit plans, Social Security, private insurance and other financial products protect retirees against some of these risks. To manage the many risks in retirement, American households must determine the appropriate balance of self-insuring against these risks by independently investing their retirement portfolios, annuitizing a portion of their wealth and adjusting their spending habits as needed. Following is a summary of risks and approaches to protect against them.

| Risk | Potential Range for Risk | Approaches to Manage/Transfer Risk |
|---|---|---|
| Outliving assets | At age 65, average life expectancy is 17 years for American men and 20 years for women. Half of those reaching 65 will survive longer. Thirty percent of all women and almost 20 percent of men age 65 can expect to reach 90. [(1)] | Annuities, including joint and survivor annuities and deferred annuities commencing at higher ages, such as 75 or 80; investment strategies to preserve principal. |
| Loss of spouse | Because women have longer life expectancies than men and traditionally have been younger than their husbands, periods of widowhood of 15 years or more are not uncommon. For many women, the death of a spouse is accompanied by a decline in standard of living. | Joint and survivor annuities; life insurance; investment strategies to produce income. |
| Decline in functional status | The cost of care as older people become frail may amount to a million dollars or more for a couple over their lifetimes. Nursing home care costs may run $70,000 or more per person, per year. [(2)] Care may be provided at home, in adult day care centers, assisted living facilities or nursing homes. | Long-term care insurance that helps pay for the cost of caring for disabled seniors. Many continuing care retirement communities (CCRCs) cap monthly costs for assisted living and skilled nursing care, but are subject to their own financial risks. |
| Health care and medical expenses | A 2010 study estimates that health care costs for a retired couple both age 65 could amount, on average, to $250,0000 over their retirement. This figure does not include nursing home care costs or reflect health care reform legislation.[(3)] | Medical insurance, Medicare supplement; starting in 2014, health insurance options will change as health reform is implemented. |
| Inflation | Over the period 1980–2009, annual inflation in the U.S. for all items ranged from -0.4 percent to 8.9 percent, and has averaged 3.5 percent. For medical care, the annual average has been 5.8%. [(4)] | Ownership of home and other assets; TIPS; Annuity products with a cost-of-living adjustment. |

Footnotes: 1: Social Security Administration, 2010 Period Life Table; 2: Metlife Market Survey of Nursing Home and Home Health Care Costs, 2005; 3: Fidelity Investments, Retiree Health Care Costs Estimate, 2010; 4: Consumer Price Indices, U.S. Bureau of Labor Statistics, 2009

# Retirement Risk – A Comparative Snapshot of Concerns

## Findings

The retirement risk that most concerns both retirees and pre-retirees is keeping the value of their savings and investments up with inflation (58 percent of retirees *very* or *somewhat* concerned, 71 percent of pre-retirees). Half of retirees and more than six in 10 pre-retirees also express concern about having enough money to pay for adequate health care (49 percent of retirees, 67 percent of pre-retirees) and their income varying due to changes in interest rates (52 percent of retirees, 62 percent of pre-retirees).

Retiree concern about the various retirement risks has remained remarkably stable over time. Pre-retirees are more likely in 2009 than in 2007 to say they are concerned about keeping the value of their investments up with inflation (71 percent, up from 63 percent) and about spouses maintaining their standard of living after their own death (43 percent of married pre-retirees, up from 35 percent). At the same time, concern among pre-retirees about their ability to pay for long-term care has decreased (55 percent, down from 63 percent), while concern about having enough money to pay for adequate health care has continued the steady decline from its high in 2003 (67 percent, down from 79 percent).

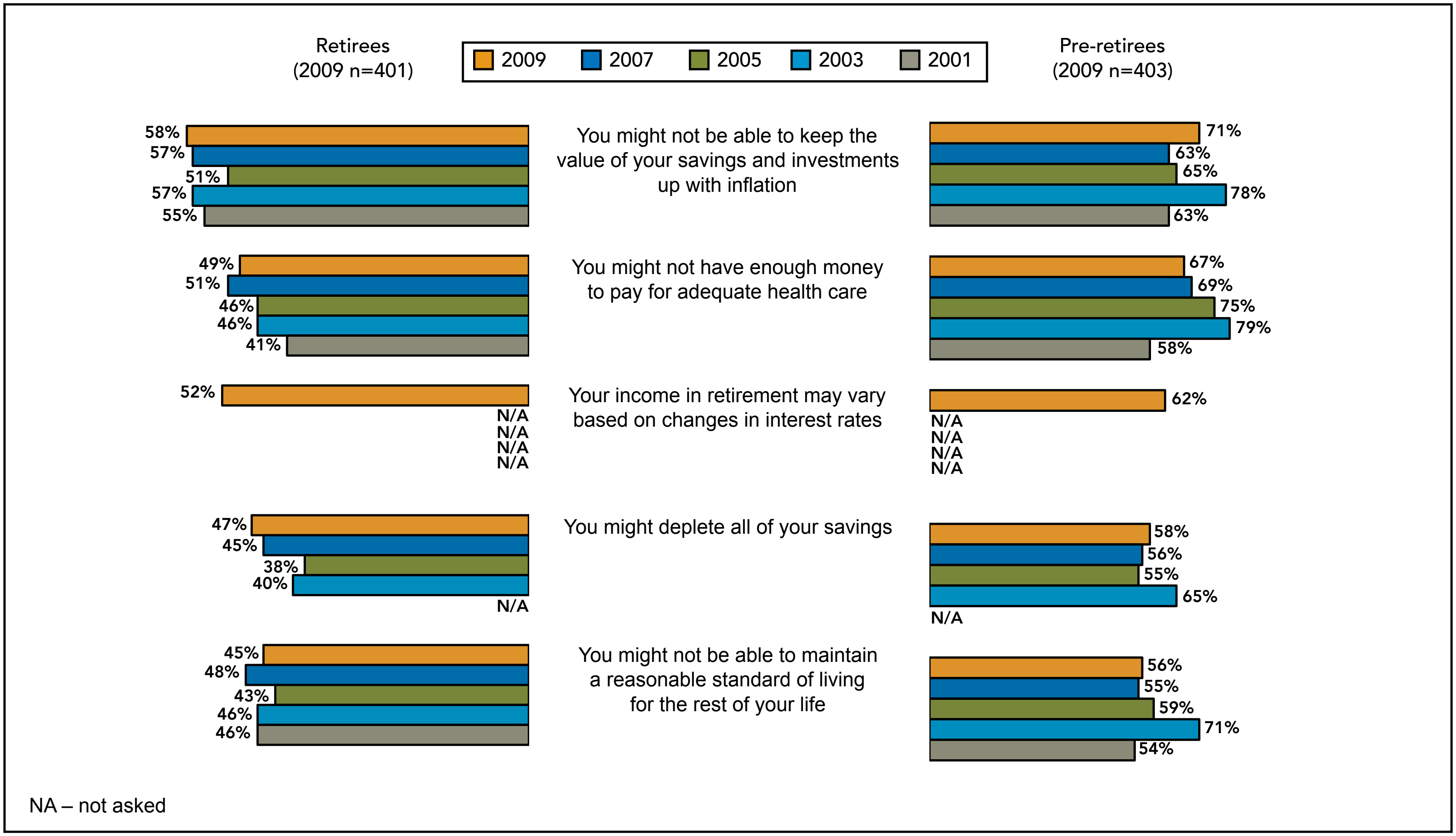
## Discussion

As in prior years, pre-retirees are more concerned than retirees about the range of risks. The stability in results is very important to those who are considering benefits, products and services to help support retirement security.

The economic conditions of 2008-2009 have not had significant impact on risk perceptions as measured in this study, but they did show changes in behavior. Field work for this study was done in July 2009, and it should be noted that other research done in the period from January – April 2009 showed significant changes in concern and perception. By July, public perceptions seem to have shifted and optimism appeared to be on the rise.

# Retirement Risk – A Comparative Snapshot of Concerns

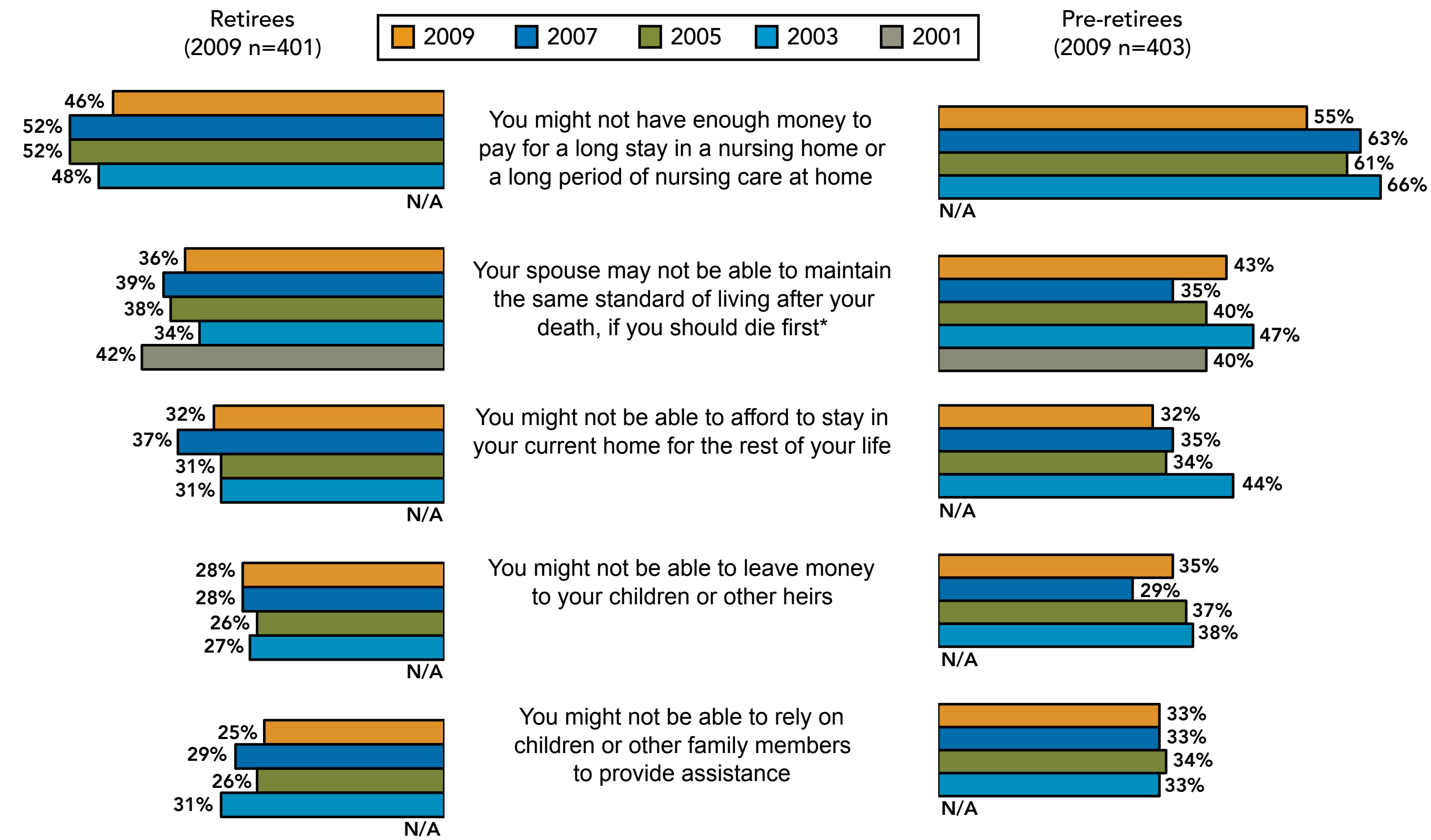
## How concerned are you that … (in retirement)? (Percentage Very or Somewhat Concerned)




Source: Society of Actuaries, 2001-2009 Risks and Process of Retirement Surveys

# Retirement Risk – A Comparative Snapshot of Concerns

## How concerned are you that … (in retirement)? (Percentage Very or Somewhat Concerned)




*Asked of married respondents only (2009: Retirees n=260, Pre-retirees n=307); NA – not asked

Source: Society of Actuaries, 2001-2009 Risks and Process of Retirement Surveys

# Use of financial products is not leading method of managing financial risk.

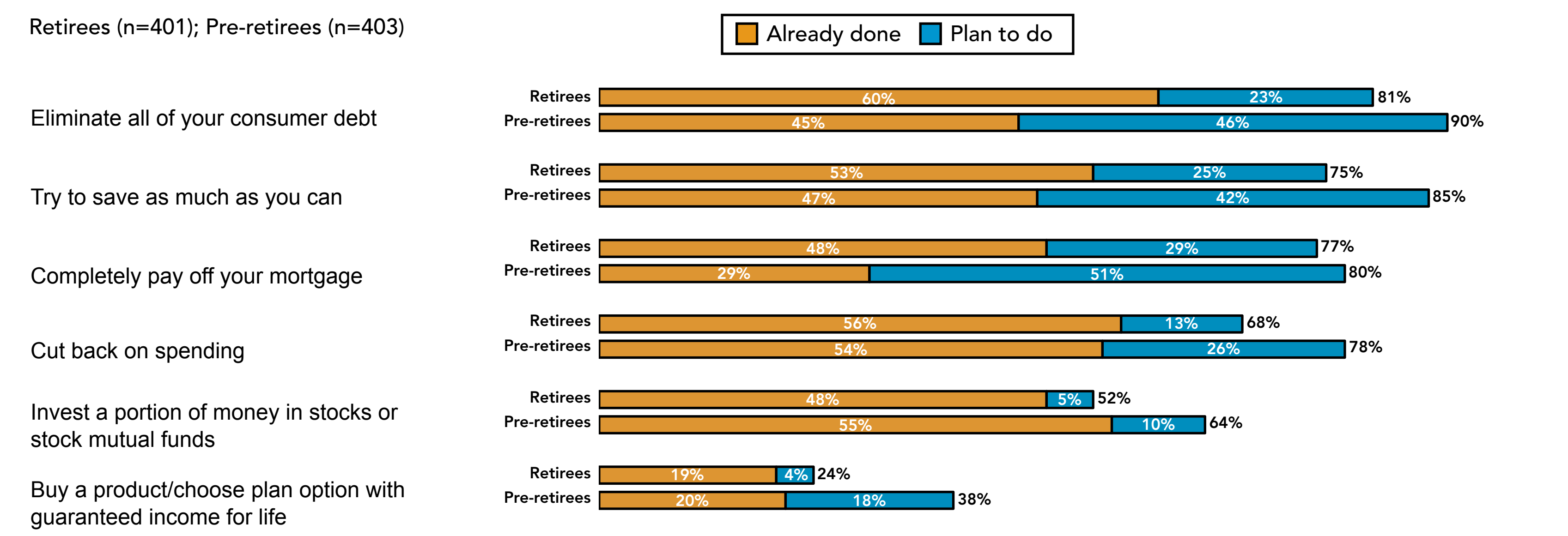
## Findings

More so than retirees, pre-retirees report they have already taken or plan to manage financial risk by taking the following actions: eliminating debt (90 percent of pre-retirees vs. 81 percent of retirees), saving as much as they can (85 percent vs. 75 percent), cutting back on spending (78 percent vs. 68 percent), and investing money in equities (64 percent vs. 52 percent). Pre-retirees are also more likely to indicate they have already bought or intend to buy a product or plan option that provides guaranteed income for life (38 percent vs. 24 percent).

## Discussion

Pre-retirees indicate more intention to take action and retirees generally convey that they have taken more action. The difference may be more of a reflection of good intentions than a signal that the next cohort will be different from the current one.

## To protect yourself financially, have you or do you plan to…?




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

Source: Society of Actuaries, 2009 Risks and Process of Retirement Surveys

# Inflation, investment and longevity risks are also important, but often not as well understood.

## Findings

Pre-retirees are more likely than retirees to express concern about inflation, investment, and some longevity risks.  Seven in ten pre-retirees (71 percent), compared with six in 10 retirees (58 percent), say they are *very* or *somewhat* concerned about inflation risk. Similarly, six in 10 pre-retirees (62 percent), but half of retirees (52 percent), are concerned about interest rate changes.

Pre-retirees are more likely than retirees to report being concerned about depleting their savings (58 percent vs. 47 percent); maintaining a reasonable standard of living (56 percent vs. 45 percent); and their spouse's standard of living after their death (43 percent of married pre-retirees, 36 percent of married retirees).

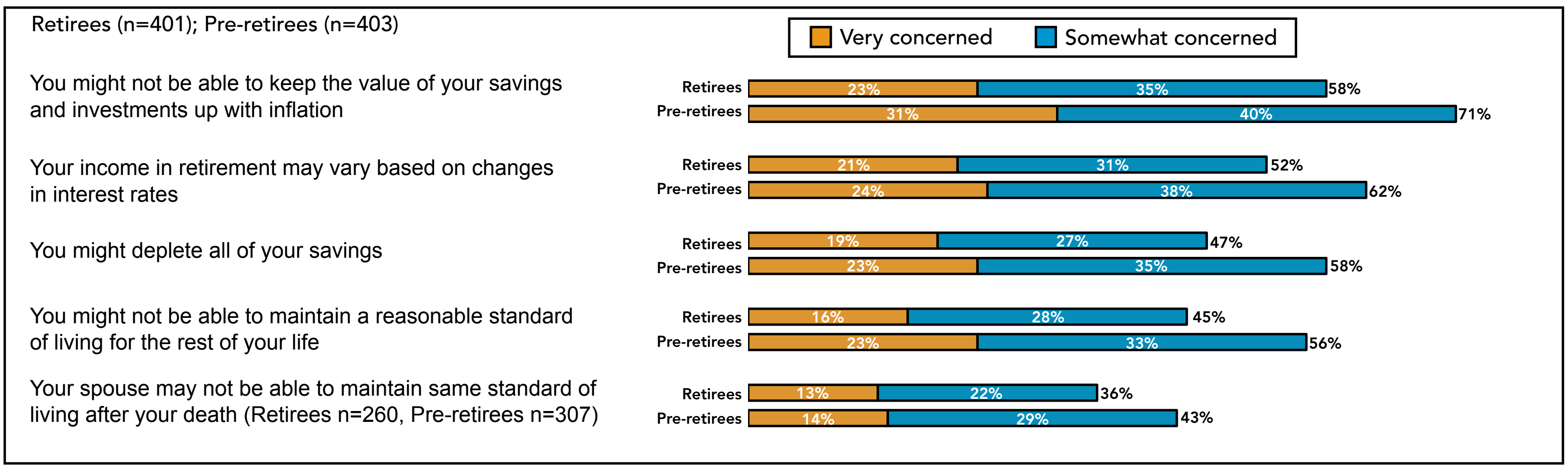
## Discussion

Experts have long been concerned that the public does not plan well for longevity risk.

It should be noted that the survey was conducted during a period of overall modest inflation, but with significant increases in health costs, energy and food during some recent periods.

The lack of more focus on longevity risk is likely linked to the planning horizon and failure of many people to focus well on the long term. Other studies suggest that, while members of the general public have a moderate comprehension of average life expectancy, they do not appreciate the variance around the mean and the financial implications of extreme old age.

## How concerned are you that … (in retirement)?




Source:  Society of Actuaries, 2009 Risks and Process of Retirement Surveys

# Couples say it is important to agree on retirement finances.

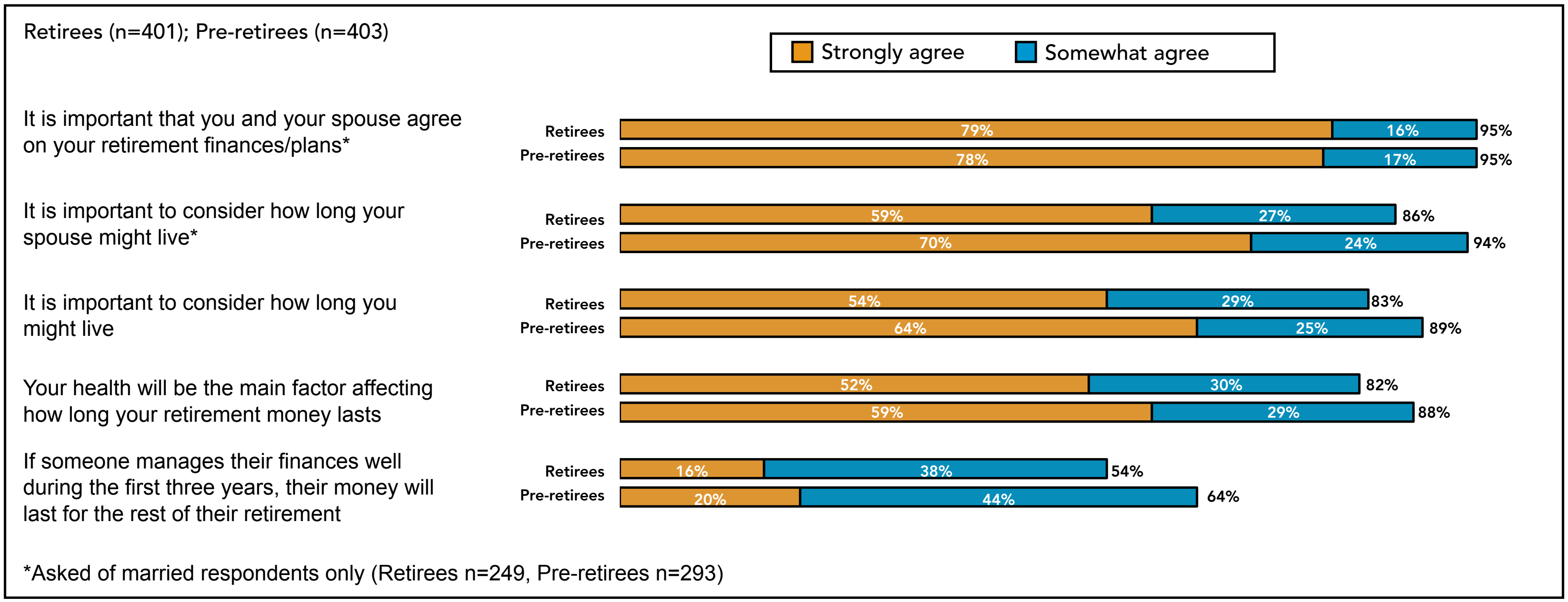
## Findings

Both retirees and pre-retirees *strongly* or *somewhat* agree it is important for them to agree with their spouse about their retirement finances and plans (95 percent of married retirees and pre-retirees). They also agree it is important to consider their spouse's (86 percent of married retirees, 94 percent of married pre-retirees) and their own (83 percent of all retirees, 89 percent of all pre-retirees) longevity when thinking about their retirement finances.

## Discussion

These are new questions in the 2009 survey.

## To what extent do you agree or disagree with each of the following statements about retirement finances?




Source: Society of Actuaries, 2009 Risks and Process of Retirement Surveys

# The economic downturn has increased concerns about retirement.

## Findings

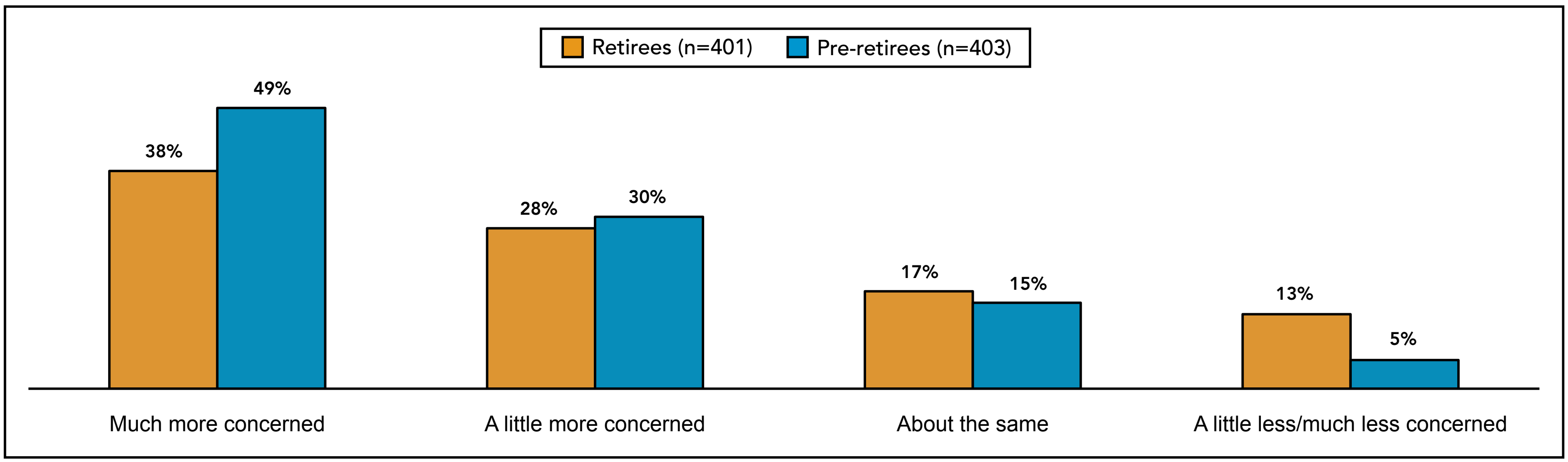
Two in three retirees (66 percent) and four in five pre-retirees (79 percent) are now more concerned about their financial situation in retirement than they were prior to the recent stock market crash and economic downturn.

## Discussion

This overall concern about retirement security is different from concerns about specific risks which were largely unchanged. For pre-retirees loss of jobs is a key issue. Housing value declines affect most retirees and pre-retirees, and those holding stocks are affected by investment markets.

Social Security benefits and DB pensions were not directly affected by the downturn. As of the writing of this report, major equity indices had regained more than half of the value lost, but this recovery has been accompanied by unusually high levels of volatility in stock prices. This affects individual retirees in different ways depending on their investment holdings and strategies. In contrast, for those seeking to sell housing or secure mortgages, values continue to be lower than expected in many areas.

## How much has the recent stock market and economic downturn affected your financial concerns (about retirement)? Are you now…?




Source: Society of Actuaries, 2009 Risks and Process of Retirement Surveys

# Housing wealth is a large portion of assets, but often not a direct factor in retirement planning.

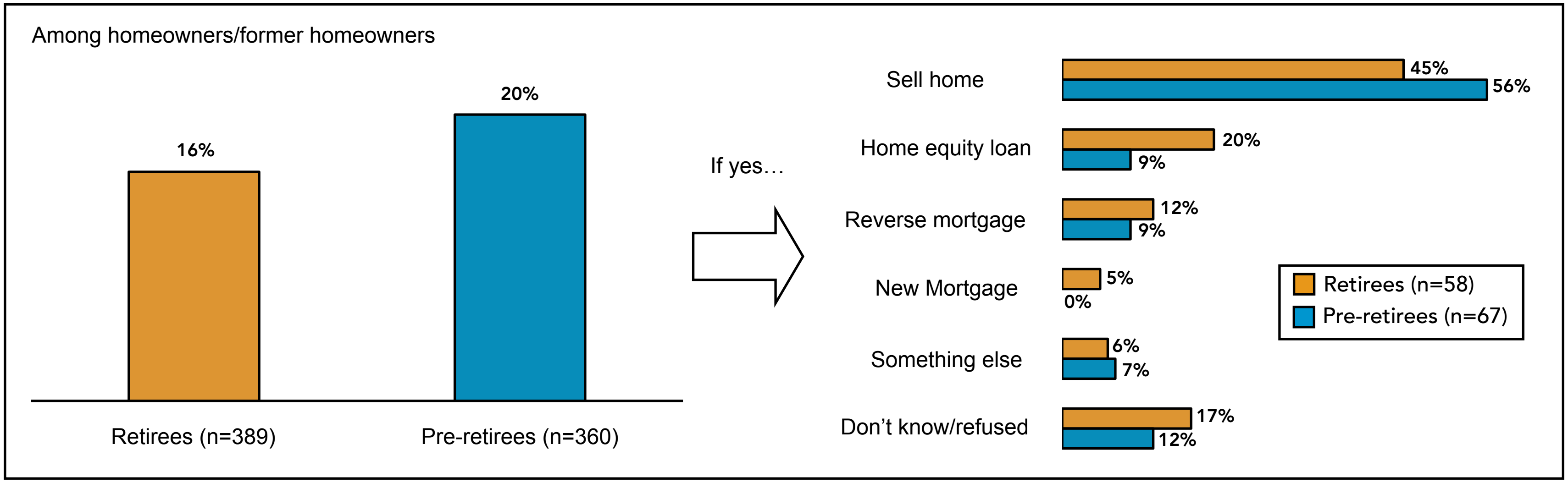
## Findings

Only about two in 10 retirees (16 percent) and pre-retirees (20 percent) have already used or plan to use equity in their home to help finance their retirement. Those who do generally plan to tap into their home equity by selling their home (45 percent of retirees, 56 percent of pre-retirees). They are much less likely to access this equity through a home equity loan (20 percent of retirees, 9 percent of pre-retirees), a reverse mortgage (12 percent of retirees, 9 percent of pre-retirees), or a new mortgage (5 percent of retirees, 0 percent of pre-retirees).

## Discussion

Home values are an extremely important part of the retirement economics and life situation for many people. For Americans in the 25 to 85th percentile by asset values, non-financial assets (primarily home values) are 70 percent of total assets (excluding the value of pensions and Social Security). Housing cost is often the largest expense of retirees. Retirees can reduce expenses by paying off their mortgage, while many have already sold larger homes and downsized to help finance retirement.

## Do you have any plans to use [or have you already used] the equity in your home to help finance your retirement? If yes: Did you/Do you think you will…?




Source: Society of Actuaries, 2009 Risks and Process of Retirement Surveys

# Health and long term care risks are among greatest concerns for pre-retirees and retirees.

## Findings

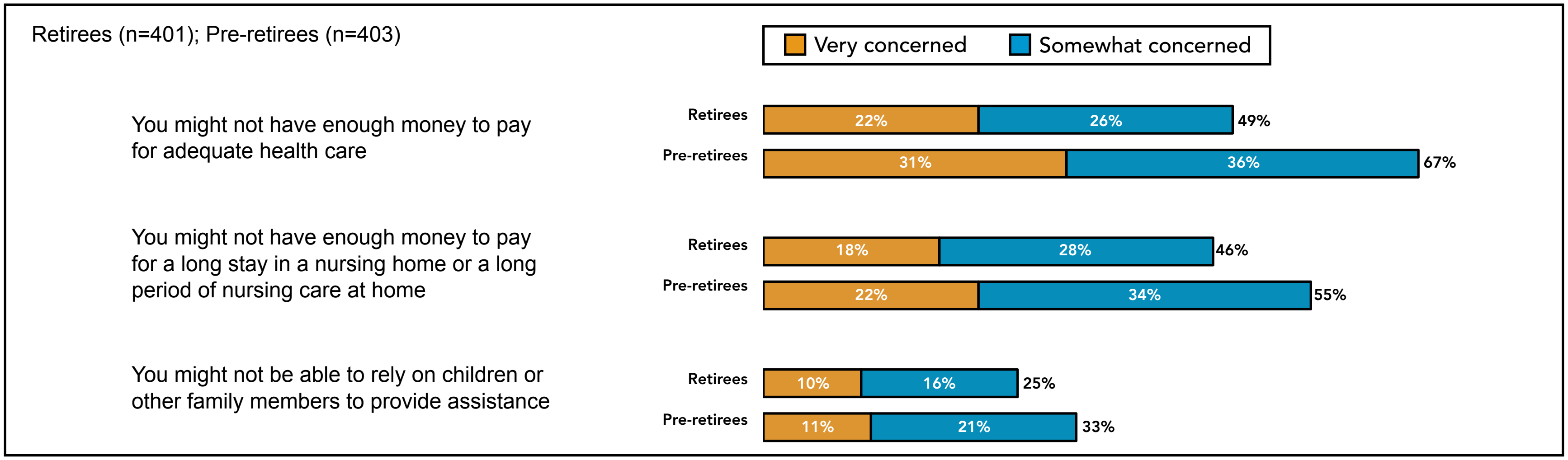
Although health care expenses cause significant worry among retirees, pre-retirees are even more likely to express concern. Two-thirds of pre-retirees are *very* or *somewhat* concerned about having enough funds to afford adequate health care (67 percent) and more than half are concerned about having enough money to pay for long-term care (55 percent). Roughly half of retirees are concerned about each of these costs.

Both retirees and pre-retirees are much less likely to say they are concerned about not being able to rely on family members for assistance (25 percent of retirees, 33 percent of pre-retirees).

## Discussion

At the time of the survey, Americans over age 65 were covered by Medicare, and those under age 65, largely by employer plans. Some early retirees had access to health coverage through their former employer, a current employer or a spouse's employer. Those without employer coverage and with health problems had difficulty securing coverage in many states. Long term care coverage could be secured in the private market and some employers sponsor insurance plans, but the majority of the population did not have such coverage.

## How concerned are you that … (in retirement)?




Source: Society of Actuaries, 2009 Risks and Process of Retirement Surveys

# Nearly all respondents say they are trying to stay healthy to help manage health risk.

## Findings

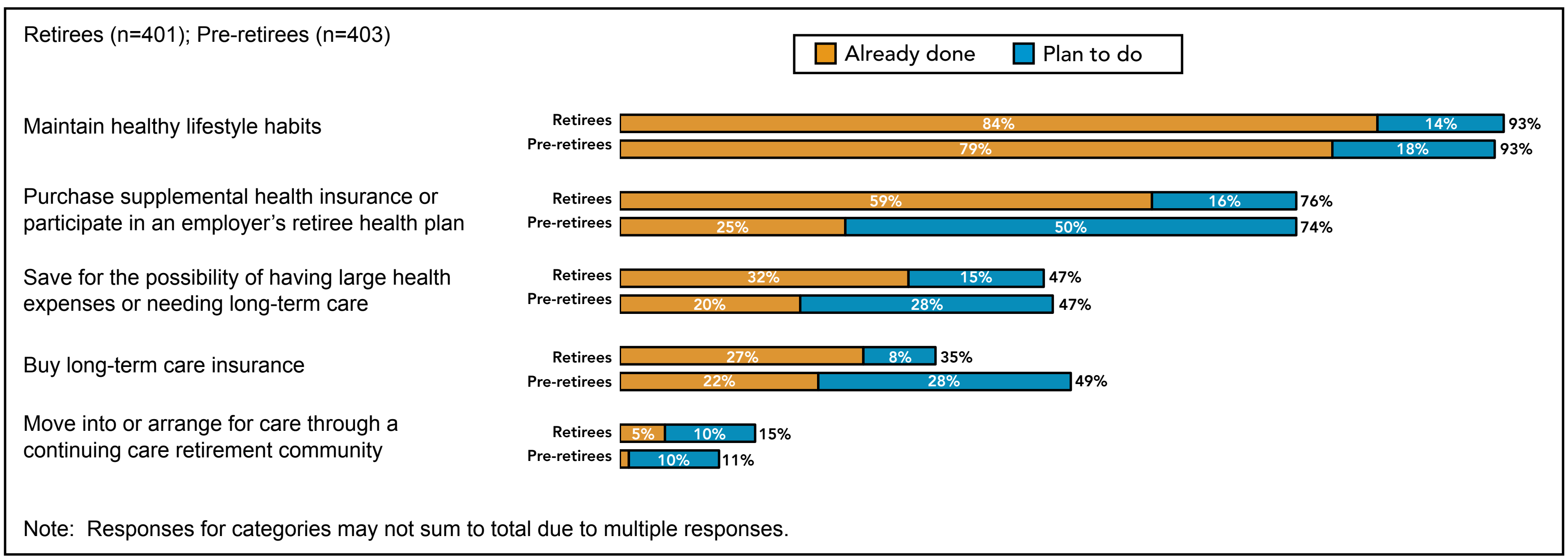
Few turn to risk-reducing insurance products other than supplemental health insurance to help them manage health risks. Although three-quarters report they already have or plan to have supplemental health coverage (76 percent of retirees, 74 percent of pre-retirees), only one-third of retirees (35 percent) and half of pre-retirees (49 percent) say they already have or intend to purchase long-term care insurance. Few plan to move into or arrange for care through a continuing care retirement community (15 percent of retirees, 11 percent of pre-retirees).

## Discussion

This question was first asked in 2007. In both 2007 and 2009, there is an overwhelming response about maintaining healthy habits, but the authors of this report are skeptical about whether action backs up these statements about healthy habits.

The proportion who say they have or expect to buy long-term care insurance also seems high compared to the percentage of the population who have such coverage. This may also reflect responses about what people feel they should do vs. what they really do.

## To protect yourself financially, have you or do you plan to…?




Source: Society of Actuaries, 2009 Risks and Process of Retirement Surveys

# Respondents expect to delay retirement…but can they?

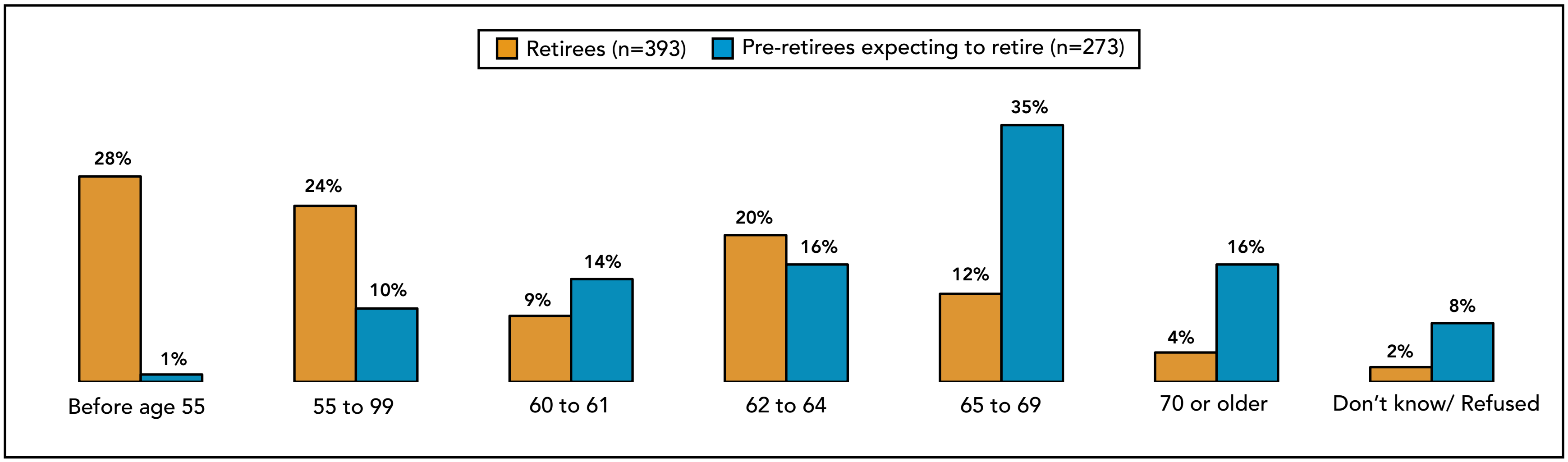
## Findings

Three in 10 pre-retirees state that retirement will not apply to them (29 percent) because they will be financially unable to retire, choose to continue working, or some other reason. Those pre-retirees who eventually expect to retire think they will work longer than current retirees actually did. While half of retirees report they retired before age 60 (52 percent), just one in 10 pre-retirees thinks they will retire that early (11 percent). Instead, half of pre-retirees expecting to retire say they will wait at least until age 65 to retire (51 percent vs. 16 percent of retirees who waited).

## Discussion

This current iteration of the survey focuses on age at retirement, and not the process of retiring. A considerable number of people retire, but continue with some work during retirement. Retirement is becoming more of an extended process. As in prior studies, nearly 1/3 of pre-retirees indicate that they do not expect retirement to apply to them. Also as in prior studies, pre-retirees expect to retire much later than current retirees actually retired. Many are likely ignoring premature retirement risk. The Retirement Confidence Study series indicates that nearly half of Americans end up retiring earlier than planned, often due to job loss, illness or family members needing care.

## At what age did you/do you expect to retire from your primary occupation?




Source: Society of Actuaries, 2009 Risks and Process of Retirement Surveys

# Delayed retirement can increase security, but is the impact well-understood?

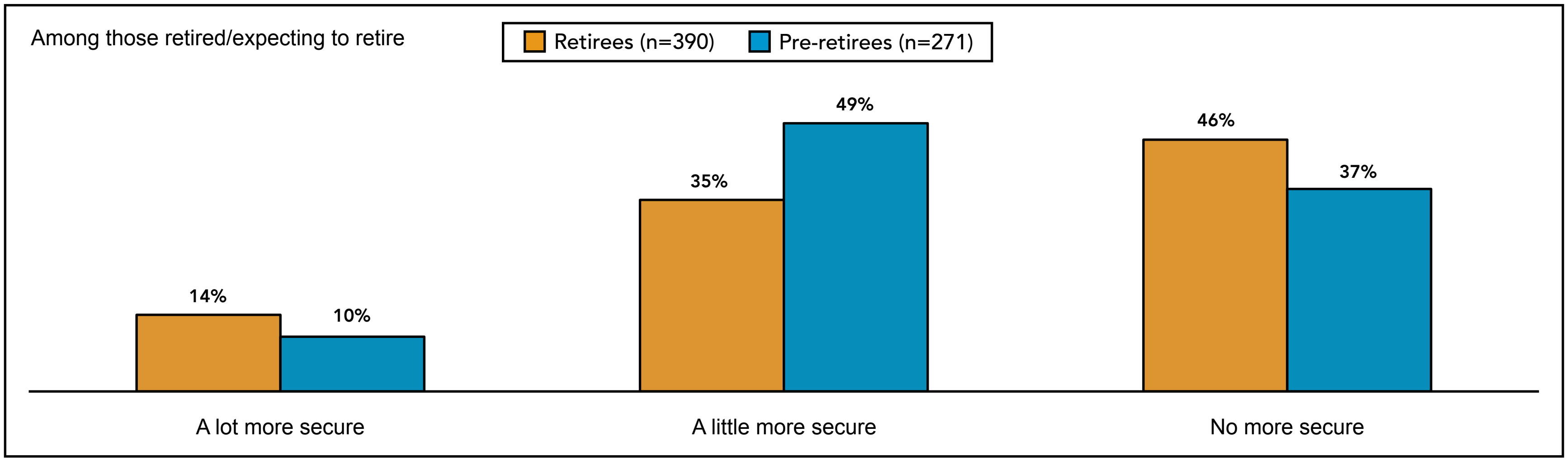
## Findings

Pre-retirees are more likely than retirees to feel a three-year delay in retirement would make their retirement finances a *lot more* or a *little more* secure (59 percent vs. 49 percent). Almost half of retirees feel a delayed retirement would have made them *no more* secure (46 percent), while less than four in 10 pre-retirees feel the same (37 percent).

## Discussion

These results are consistent with the 2007 survey. They indicate that more planning and analysis would be helpful to many individuals to see in dollars the financial impact of delaying retirement. Working three more years would often be quite helpful because of the potential for better benefits and more asset accumulation as well as a shorter period of retirement.

## [Suppose you retired three years later than you did/plan.] Do you think this would make your retirement financially…?




Source: Society of Actuaries, 2009 Risks and Process of Retirement Surveys

# Respondents think health coverage is greatest impact of delayed retirement — better analysis needed to understand its individual impact.

## Findings

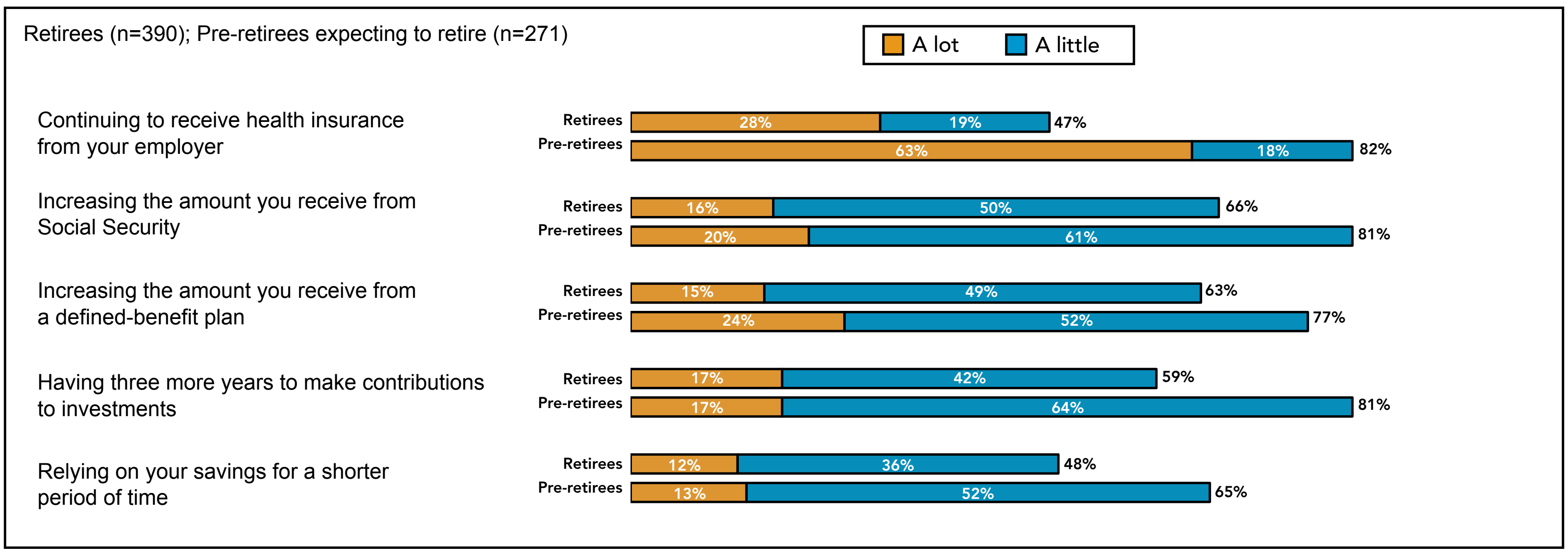
Pre-retirees are more likely than retirees to think that each of the factors examined in the survey would increase their retirement security. In particular, almost two-thirds say that continuing to receive health insurance from their employer would increase their financial security a lot (63 percent vs. 28 percent of retirees).

## Discussion

People do not seem to realize the impact that delaying retirement can have on retirement security. This would not be important for those who are not living from savings, but for those who are spending down assets, it could be a significant difference.

It is interesting that there is not much differentiation between the importance of various strategies. We are skeptical about how much information respondents have on the topic of this question.

## [If you (had) retired three years later,] how much, if at all, would each of the following (have increased/increase) your financial security in retirement?




Source: Society of Actuaries, 2009 Risks and Process of Retirement Surveys

# A majority think their financial situation will be about the same after the loss of a spouse.

## Findings

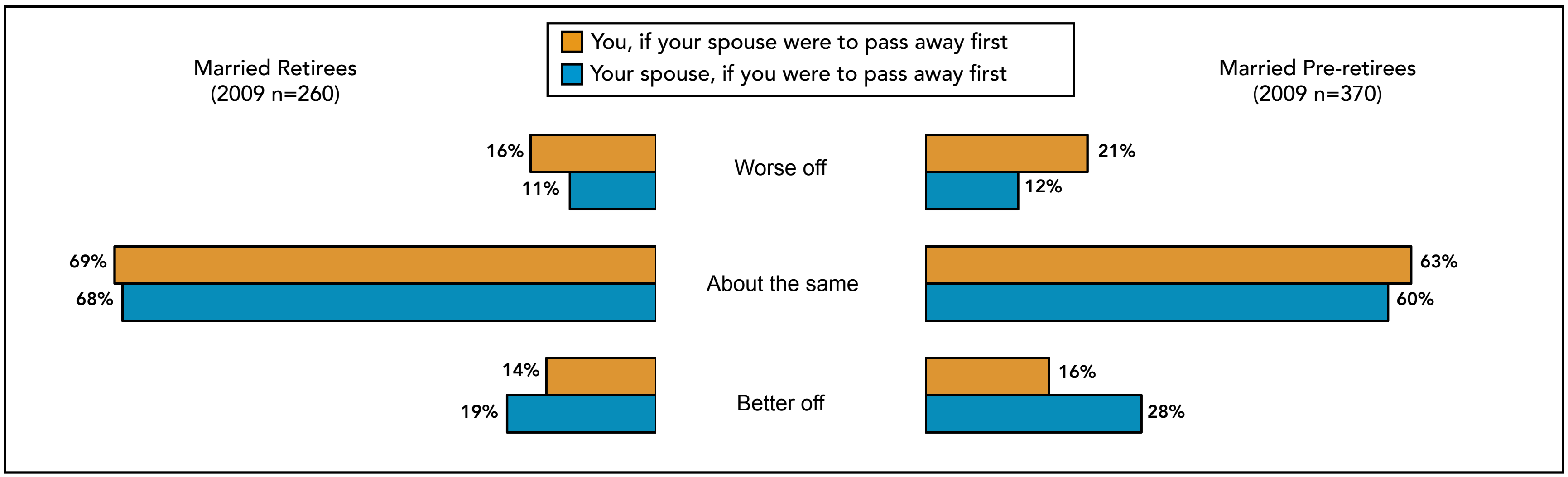
Married retirees and pre-retirees are more likely to feel their spouse would be financially *better off* (19 percent of retirees, 28 percent of pre-retirees) than they are to think their spouse would be *worse off* (11 percent of retirees, 12 percent of pre-retirees) if they were to pass away first. If the circumstances were reversed and their spouse were to predecease them, married retirees and pre-retirees are statistically as likely to say they will be *worse off* (16 percent of retirees, 21 percent of pre-retirees) as to say they will be better off (14 percent of retirees, 16 percent of pre-retirees).

## Discussion

The responses to this question raise significant concern about lack of awareness of the economic consequences of the death of a spouse. Some people will be better off economically after the death of their spouse. If two people are living from the income on a pool of assets, then one would have similar income and some lower costs. Also, if one spouse was sick for a long time, the survivor may well be better off financially without the costs of the illness.

However, the reality is that most people will be worse off if their spouse dies. About four in 10 elderly women alone rely almost totally on Social Security for their income.

## If your spouse were to pass away before you/If you were to pass away before your spouse, do you think it would leave you/your spouse financially…?




Source: Society of Actuaries, 2009 Risks and Process of Retirement Surveys

# Many retirees and near-retirees have a planning horizon much shorter than their likely life span.

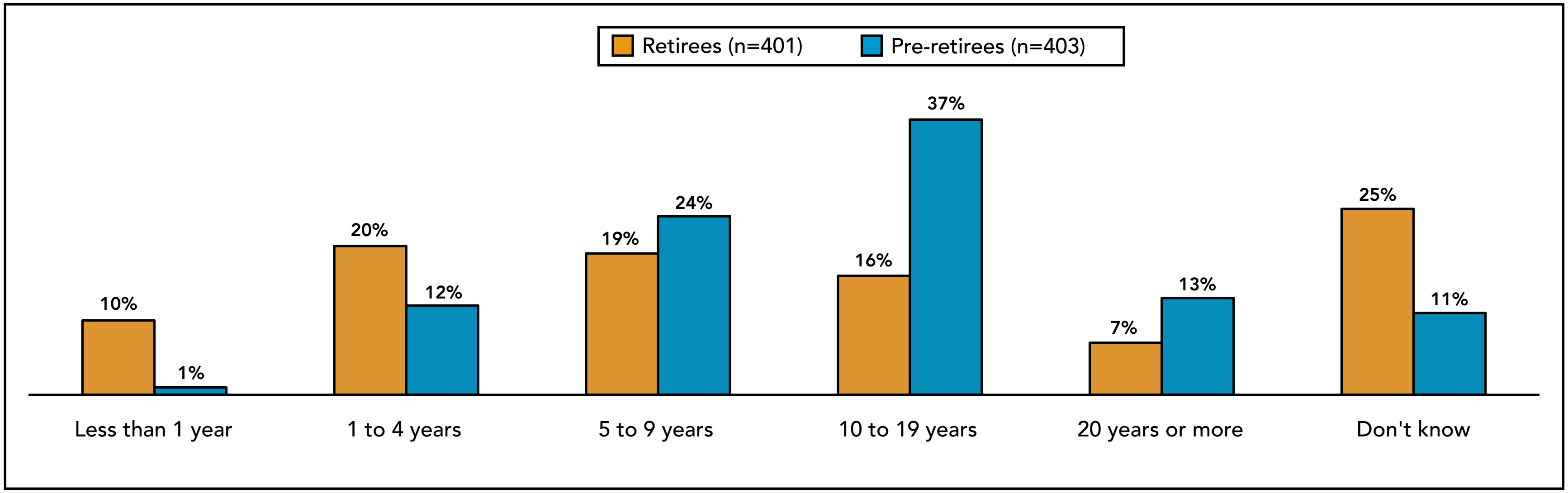
## Findings

The typical retiree has a planning horizon of just five years, while the typical pre-retiree has a 10-year planning horizon. Very few retirees (7 percent) or pre-retirees (13 percent) look 20 or more years into the future when making important financial decisions.

## Discussion

This is a new question in the 2009 survey and a very important issue. The length of the planning horizon explains why there is not more concern about some of the risks.

### When you make important financial decisions, about how many years do you look into the future?




Source: Society of Actuaries, 2009 Risks and Process of Retirement Surveys

# Major Differences in Survey Results Across Time

**RETIREES' LEVELS OF CONCERN** regarding the retirement risks examined in this study have remained relatively consistent since the first survey was conducted in 2001. Nevertheless, retirees are less likely than in 2007 to say they are *very* concerned about being able to afford long term care (18 percent, down from 27 percent in 2007 and comparable with the 20 percent measured in 2003). They are less likely to indicate they are very concerned about being able to leave money to children or other heirs (9 percent, down from 14 percent in 2007).

Among pre-retirees, concern about keeping the value of their investments up with inflation (71 percent *very* or *somewhat* concerned, up from 63 percent in 2007) has overtaken health care as the risk that pre-retirees are most likely to express concern about. In fact, concern about having enough money to pay for adequate health care (67 percent) has continued the steady decline from its high in 2003 (79 percent). Pre-retirees are also more likely than in 2007 to say they are concerned that their spouses may not be able to maintain their standard of living after their death (43 percent of married pre-retirees, up from 35 percent), but their concern about their ability to pay for long-term care has decreased (55 percent, down from 63 percent).

Some changes were also measured in the strategies individuals use to manage risk. Among retirees, larger proportions report they have already cut back on spending (56 percent, up from 48 percent in 2007) and moved assets to increasingly conservative investments (43 percent, up from 33 percent in 2007). However, retirees are now less likely to indicate they have already completely paid off their mortgage (48 percent, down from 56 percent in 2005), purchased a product or chosen an employer plan option that provides guaranteed income for life (19 percent, down from 27 percent in 2005), and moved to a smaller home or less expensive area (10 percent, down from 16 percent in 2007). Pre-retirees show fewer changes in risk management strategies, although they are also more likely to have already cut back on spending (54 percent, up from 37 percent in 2007) and moved assets to more conservative investments (26 percent, up from 20 percent in 2005).

Pre-retirees are more likely than in 2007 to indicate they are already maintaining healthy lifestyle habits (84 percent, up from 69 percent). Both groups are also more likely than in 2005 to say they have already purchased long-term care insurance (27 percent, up from 20 percent for retirees, 22 percent, up from 16 percent for pre-retirees).

# Profile of the Survey Respondents

The following charts summarize the demographic characteristics of the 2009 survey respondents. For a comparison to respondents from previous iterations of the survey, please refer to the full survey report available at *www.soa.org*

| | Pre-Retirees (n=403) | Retirees (n=401) |
|---|---|---|
| **Age** | | |
| 45 to 54 | 61% | 14% |
| 55 to 64 | 36 | 26 |
| 65 to 80 | 4 | 60 |
| **Gender** | | |
| Male | 48% | 47% |
| Female | 52 | 53 |
| **Marital status** | | |
| Married | 74% | 62% |
| Living with a partner | 3 | 3 |
| Divorced/Separated | 12 | 14 |
| Widowed | 5 | 16 |
| Never Married | 6 | 5 |
| **Education** | | |
| Some high school or less | 2% | 9% |
| High school graduate | 23 | 26 |
| Some college, trade or business school | 29 | 26 |
| College graduate | 26 | 23 |
| Graduate degree | 18 | 15 |
| **Employment status** | | |
| Working | 81% | 11% |
| Retired | 0 | 75 |
| A homemaker | 5 | 3 |
| Laid off/unemployed and seeking work | 9 | 3 |
| Disabled and unable to work | 3 | 9 |
| Other | 1 | <0.5 |
| **Provide significant financial support for someone other than themselves/spouse** | | |
| Yes | 37% | 17% |

# Profile of the Survey Respondents

| | Pre-Retirees (n=403) | Retirees (n=401) |
|---|---|---|
| **Home ownership** | | |
| Own home free and clear | 31% | 54% |
| Own home, owe mortgage | 58 | 37 |
| Rent home | 9 | 8 |
| Don't know/Refused | 2 | 1 |
| **Health status** | | |
| Excellent | 31% | 21% |
| Very good | 41 | 27 |
| Good | 19 | 24 |
| Fair | 7 | 17 |
| Poor | 2 | 9 |
| **Household income** | | |
| Less than $25,000 | 6% | 18% |
| $25,000–$34,999 | 6 | 13 |
| $35,000–$49,999 | 13 | 16 |
| $50,000–$74,999 | 16 | 17 |
| $75,000–$99,999 | 17 | 11 |
| $100,000 or more | 35 | 11 |
| Don't know/Refused | 7 | 14 |
| **Total savings/investments** | | |
| Less than $25,000 | 22% | 24% |
| $25,000–$49,999 | 8 | 8 |
| $50,000–$99,999 | 13 | 8 |
| $100,000–$249,999 | 15 | 13 |
| $250,000–$499,999 | 10 | 11 |
| $500,000–$999,999 | 6 | 6 |
| $1 million or more | 5 | 3 |
| Don't know/Refused | 22 | 27 |

# Glossary

**Baby Boomers; Baby Boom Generation**—Those born in the U.S. from 1946 through 1964.

**Defined-Benefit Plan**—A retirement plan in which the pension benefit is expressed as a monthly or other periodic amount based on a formula typically reflecting earnings and years of service.

**Defined-Contribution Plan**—A retirement plan in which the benefit is expressed as a lump sum amount based on the accumulation of employer and employee contributions with investment earnings. Many of these plans allow employees to save on a pre-tax basis and provide an employer matching contribution.

**Full Retirement Age**—Defined by Social Security as the age at which monthly retirement benefits are available in full without reduction for early retirement. For birth cohorts through 1937, this has been established at 65. For those born in 1938, full retirement age for Social Security is currently set at 65 years and two months, increasing an additional two months for each subsequent birth year, reaching age 66 for those born from 1943 through 1954. It increases again by two months for each subsequent birth year after 1954, reaching age 67 for those born in 1960 and after.

**High Income**—An arbitrary amount of income or earnings which, for the purpose of these reports, is assumed to be in excess of $100,000 annually for a family of two.

**High Net Worth**—An arbitrary amount of retirement savings, including defined-contribution pension account balances, aggregating $1 million or more for a family of two.

**Inflation**—Annual increase in the Consumer Price Index as measured by the U.S. Bureau of Labor Statistics; it may be for all consumer items, or for specific subsets such as medical care.

**Joint and Survivor Annuity**—An annuity issued on two individuals under which payments continue in whole or in part until the second of the two dies (also called joint and last survivor life annuity).

**Life Expectancy**—The average future remaining lifetime for a cohort of people at a specific age. For all Americans, life expectancy at birth in 2005 was 78; for females 80, and for males, 75. At age 65, life expectancy for males is 17 years, and for females, 20 years. Source: US Bureau of Census Tables.

**Maximum Life Span**—The maximum possible extent of human longevity, generally taken by gerontologists and actuaries as 120 years. Two thoroughly documented cases are of the Japanese, Shigechiyo Izumi, who died in 1986 at the age of 120, and of Jeanne Calment, who was born in Arles, France in February, 1875, and died there also in August, 1997 eight days short of 122½ .

**Normal Retirement Age**—For most traditional defined-benefit pension plans, this has been established as 65, the same age at which full Social Security benefits were available for birth cohorts through 1937. See also, 'Full Retirement Age'

**Phased Retirement**—There is no standard agreed upon definition of phased retirement. It is used to describe such arrangements as working part-time before retirement or retiring and then taking a new job, becoming self-employed or working on a limited basis for a former employer. Viewed broadly, it may include reducing one's work schedule before retirement, changing duties at normal retirement age, working part-time in retirement or some combination of approaches to gradually phase out of the labor force. The definition of phased retirement is typically limited to situations where a partial pension payment is available or to a situation where the individual is working for the same employer as before.

**Pre-retiree**—Anyone still in the work force who has reached an arbitrary age—typically set around 50—at which planning for retirement begins to become a serious prospect. For the purposes of the 2007 Risk and Process of Retirement Survey, pre-retirees are at least age 45.

**Qualified Plan**—A pension plan under which contributions meet certain standards set by the IRS to be tax deductible for the plan sponsor and are tax-deferred to the participant. These plans are subject to numerous rules in order to maintain the favorable tax status.

**Retiree**—Traditionally, a person who, having attained a certain age—often, but not necessarily normal retirement age—has left the labor force, with no expectation of returning. Today, many retirees leave full-time work, but continue with some work. As retirement is changing, there is no clear definition of retirement, and self-declaration of status produces varying definitions when based on labor force participation criteria. Others tend to consider themselves retired if they are collecting retirement benefits. For the purposes of the 2007 Risk and Process of Retirement Survey, respondents were considered retirees if they classified themselves as retired in an employment status question or were employed, but responded that they had retired from a primary occupation.

**Retirement**—This is generally defined as exiting from one's job or occupation, typically at an age at which the individual has no expectation of returning full-time to the labor force. For the purposes of the 2007 Risk and Process of Retirement Survey, retirement is based on exit from a primary occupation or the self-definition of respondents.

**Reverse Mortgage**—-An arrangement in which a homeowner borrows against home equity and receives regular monthly tax-free payments from the lender. Also called reverse-annuity mortgage or home equity conversion mortgage.

**Risk**—Exposure to the probability of an event that will occur with certainty, but with unknown timing—death—or that may or may not occur, such as accident, sickness, becoming disabled or outliving one's assets.

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Barbara Butrica
Craig Copeland
Michael Cowell
Matthew Drinkwater
Catherine Hill
Howard Iams
Joy Jacobs-Lawson
Betty Meredith
Stephen Mitchell
Sara Rix
Lisa Schilling
Steve Siegel
Steve Vernon

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The views and opinions expressed in this report are those of the authors and do not necessarily reflect those of the Project Oversight Group.

**TO OBTAIN A COPY OF THE COMPLETE SURVEY REPORT**

The 2009 Risks and Process of Retirement & Survey report may be obtained from the website of the Society of Actuaries at *www.soa.org.*