SOCIETY OF ACTUARIES

KEY FINDINGS AND ISSUES: Process of Planning and Personal Risk Management

>> Feb. 2011

2009 RISKS AND PROCESS OF RETIREMENT SURVEY REPORT

Introduction and Background

LIVING MUCH LONGER than their parents' generation, many of today's seniors 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 seniors must contend after they retire. The Retirement Needs Framework Project was instituted to help people to better address these risks. One outgrowth of this project has been a series of surveys conducted biennially since 2001 on the SOA's behalf by Mathew Greenwald Associates, Inc., and the Employee Benefit Research Institute (EBRI).

The Survey Findings

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 covers the results of the most recent survey taken in 2009, specifically as they relate to personal risk management strategies and the process of planning for retirement. It presents key findings from the 2009 survey and provides context for the results in relation to other studies. This is the first time in the series that the process of planning was an area of special emphasis. Additional reports cover an overview of retirement risks, women's issues, and the impact of the economy.

The Survey Goals, Methodology and Sample

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.

Current retirees, half of whom retired before age 60, and those not yet retired (referred to in these reports as "pre-retirees") are analyzed separately. The results are based on a representative sample of Americans and do not provide specific insights concerning 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.

To further the understanding of key issues as well as 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.

Conclusions

ANALYZING THE RESPONSES to the survey and the findings of other SOA studies described later in the report, one can conclude that a much higher level of financial literacy will be needed by many of those who will have to assume personal responsibility for their retirement planning. Here are some of the most important findings and conclusions based on them.

Health, Longevity and Planning Horizon

- Most respondents agreed on the importance of taking health and longevity into account. Yet while some appeared to have an understanding of their own life expectancy, only a small percentage said that they planned their retirement needs that far out.
- Fewer still had any appreciation of the financial consequences of living well beyond that age, or how to access the kind of annuity and pension options that would assist them in this regard.

Concerns and Situation of Respondents

- Except for those at higher income levels, many retirees depend on Social Security for their primary, and in some cases their sole, source of income.
- Pre-retirees especially expressed concerns about inflation, and the risk of depleting their savings.
- However, retirees seemed resilient in being able to cut back on spending for what they may previously have considered necessities.
- Other studies by the SOA show that just in the past year, retirees do not feel as free to spend as they wish.
- Because Social Security benefits have traditionally been adjusted for cost-of-living increases, concerns about inflation among those retirees who are heavily dependent on Social Security may be moderated somewhat relative to those dependent on pensions and investment income to meet retirement needs.

Housing and Retirement Security

- Housing continues to be the most significant asset for many in their pre-retirement years. Indeed, as other surveys show, except for the most affluent segment of the population, on average, home equity represents two-thirds or more of their total assets.[1]
- Owning a house outright reduces monthly expenses in retirement, and therefore the need for income. Yet, for some, even a paid for house is not affordable when considering total retirement resources and expenses.
- Yet, as the results of this survey show, except for outright sale of their homes and downsizing, options for the use of such equity to help finance retirement is not part of the plan for most retirees. Reverse mortgages and other similar means of accessing home equity do not yet appear to have achieved much acceptance.

Using Retirement Resources to Cover Needs

- Among retirees who claim they are not receiving enough from Social Security or pension plans, there is little interest in—and perhaps limited resources for—purchasing annuities.
- Retirees whose basic expenses are not covered by Social Security and pensions are using whatever savings they do have to cover the gap.
- Those who have managed to accumulate funds in qualified tax-sheltered retirement plans are required to take mandatory distributions from those funds no later than the year after they reach age 70½ or else face tax penalties. These mandatory distributions are a specified percentage of the fund balance at the end of the previous year, and the amount withdrawn can be spent or saved, but taxes are due for the tax year of withdrawal.
- It should be noted that the pattern of minimum distributions prescribed by the Internal Revenue Code may not fit well to spending needs, and in some cases it will lead to withdrawing assets more rapidly than is desirable. Any part of such mandatory withdrawals not needed for current expenditures may, of course, be reinvested in a non-qualified account.
- Even among retirees who are fortunate enough to have significant pension income from other sources, relatively few have a well defined plan for withdrawing money from accumulated funds, except for the required distributions.

Providing for Health Care and Long-Term Care

- Lastly, health care and the ability to provide for long-term care continues to be a major concern.
- Health insurance is appreciated as a principal advantage of working longer, not only among pre-retirees but also among those who retired before they became eligible for Medicare or had difficulty replacing their employer-provided coverage.
- Given the uncertainties surrounding health care delivery, it is encouraging that virtually all respondents cite pursuing a healthy lifestyle as a primary risk management strategy, although it is not clear for how many this is a reality rather than an ideal.

As noted earlier in this report, the survey was conducted in 2009, before the major health care legislation was enacted in 2010. As the 2010 legislation is implemented and being challenged, the entire health care scenario is now in flux, and the impact of the 2010 reforms and whatever modifications may be made in 2011 will change some of the issues and options and should be closely monitored in the next survey in this series.

ENDNOTE:

1 "Segmenting the Middle Market: Retirement Risks and Solutions – Phase 1 Report," *www.soa.org*, Noel Abkemeier, Brent Hamann, 4/2009

Perspectives

Timing of Retirement Is Among the Most Critical of Life Decisions

In planning for retirement, and anticipating the risks they will face, a major and pressing issue for pre-retirees is the age at which they will eventually make that transition. And while the lines between employment and retirement are becoming increasingly blurred as many workers phase out or retire gradually, the more likely event for many now in their pre-retirement years is retiring earlier than planned. Events such as a decline in personal health, needing to take care of a family member or, more recently, job loss related to the economic downturn, have caught many people by surprise, leading to the loss of earnings potential in their most critical pre-retirement years. A high percentage of respondents have considered the financial advantages of delaying retirement. Yet it is becoming increasingly important for those who want to work longer, or think they will have to, to plan realistically for making it happen. They need to keep their skills up to date and maintain networks in order to be prepared for any new employment challenges they may face in their 50s or 60s.

Planning, Personal Responsibility and Financial Literacy Are Other Key Issues

Overall, one striking feature in the information gathered in the 2009 survey and the related studies and research was the apparent gap in basic financial literacy for many at all ages including people nearing retirement, even among the more affluent among the participants in the various studies. Apart from the effects of having one's plans preempted, it is abundantly clear that decisions as to when people intend to retire are not as carefully planned as they should be. One comment from the focus group[1] study that stuck out as illustrative of this problem and its consequences is the expectation of participants who said they planned to retire at the same age their parents did. But things have changed since their parents retired and this is an example of common unrealistic expectations of the first wave of baby boomers. If so, it may come as a profound shock when they recognize the consequences of having to take responsibility not only for the investment management of their defined contribution balances and whatever assets they may have been able to accumulate, but the mortality risk also. The Center for Retirement Research study[2] referenced later also cited findings from behavioral research that people are far from rational, planning inadequately if at all, then scrambling to adjust as they approach retirement with funds inadequate to support their expectations. It is no exaggeration to say that many in this generation on the cusp of retirement are unprepared for the challenges they will have to confront.

Many People Do Not Have Adequate Wealth to Retire at the Same Standard of Living as Before Retirement

Drilling down into the distribution of assets for households with at least one member born in the early years of the baby boom illustrates the inadequacy of the levels of wealth accumulated by many Americans. To support the kind of retirement income security that their parents' generation had achieved, let alone the lifestyle to which they themselves had become accustomed in the high earnings years of their working careers, baby boomers with still sufficient years of earnings left will need to sharply increase their savings. This analysis by the National Bureau of Economic Research[3] confirms much of what these Society of Actuaries studies have implied. The lowest third of earners will retire with little more than their Social Security benefits; the middle third with some additional income for discretionary spending; only the top third with resources to support a comfortable retirement.

Federal Budget Pressures Create Uncertainty

No one planning retirement should ignore the enormous pressures on Washington to rein in federal government spending. These pressures create uncertainty with regard to future levels of taxes and the structure of government programs. With more than 19 percent of the Federal budget going to Social Security and almost 13 percent more to Medicare and Medicaid,[2] recipients of these programs have to be mindful of proposals by a range of groups focused on the deficit, the budget and fiscal responsibility to make changes in these programs that could affect all Americans.

A Wake Up Call for People Nearing Retirement

As with earlier surveys in this series, the issues and concerns emphasized in this report should serve as a wake-up call. Employers, employees and retirees alike need to better prepare themselves and the generation ahead for the challenges of providing for a secure retirement.

ENDNOTE:

1. "Spending and Investing in Retirement–Is There a Strategy?", *www.soa.org* , Mathew Greenwald, Sally Bryck, Eric Sondergeld, 2005
2. "How Do Responses to the Downturn Vary by Household Characteristics?", The Center for Retirement Research at Boston College, Norma B. Coe, Kelly Haverstick , 2010
3. "Recessions, Reeling Markets and Retiree Well-Being", National Bureau of Economic Research, Courtney Coile, Phillip Levine, 2010
4. The United States Federal Budget for Fiscal Year 2010 *http://www.gpoaccess.gov/usbudget/fy10/pdf/fy10-newera.pdf*

Few features of the survey stand out as sharply as the disconnect between when current non-retiree respondents say they expect to retire and the earlier ages at which current retirees actually did. This can have major implications for financial security in retirement.

Findings

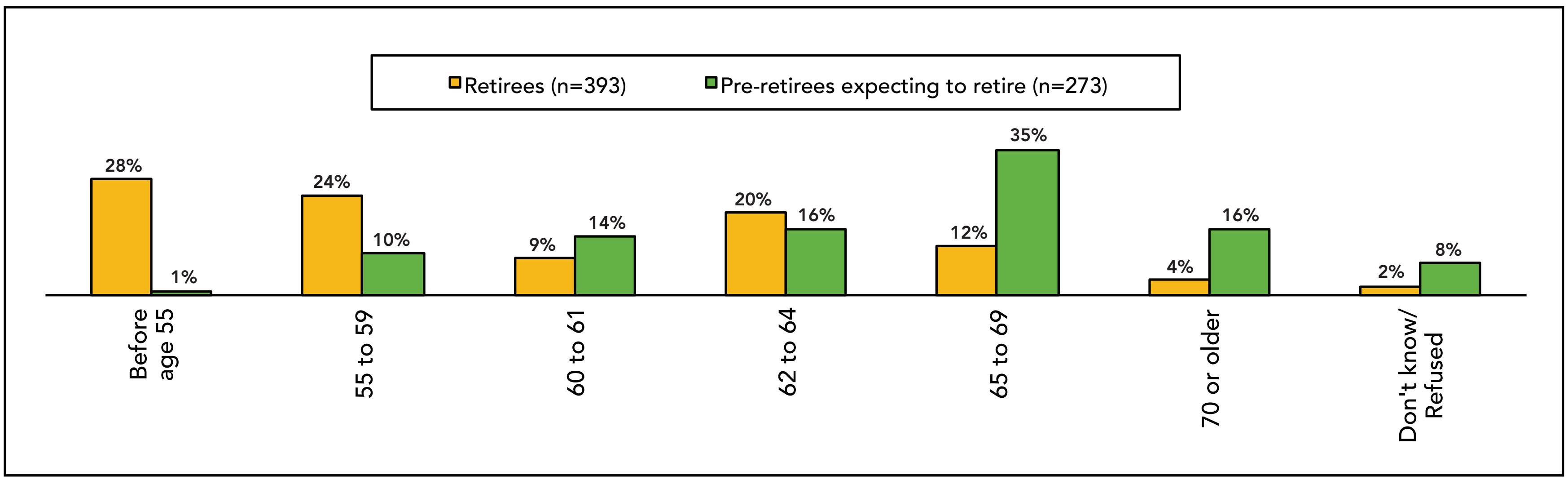
Three in 10 pre-retirees state that retirement will not apply to them (29 percent) because they will be financially unable to retire, they choose to continue working, or for some other reason. Those pre-retirees who expect eventually to retire plan on working longer than current retirees actually did. While half of retirees report they retired before age 60 (52 percent), just one in ten pre-retirees think 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).

Discussion

Age at retirement is a critical factor in how much assets are needed and how long they are likely to last. The risk surveys have consistently shown that pre-retirees expect to retire at much higher ages than retirees actually did. The research also has shown that people underestimate the value of working longer. The reason many people end up retiring before they planned is often job loss, poor health, or having to provide care to spouses or other family members.

It is important for people who want to work longer to plan realistically for making it happen and to take steps such as keeping skills up to date and maintaining networks if they need new employment.

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

Many individuals do not appear to understand the financial benefits of delaying retirement. While it can increase financial security, the effect does not seem well understood.

Findings

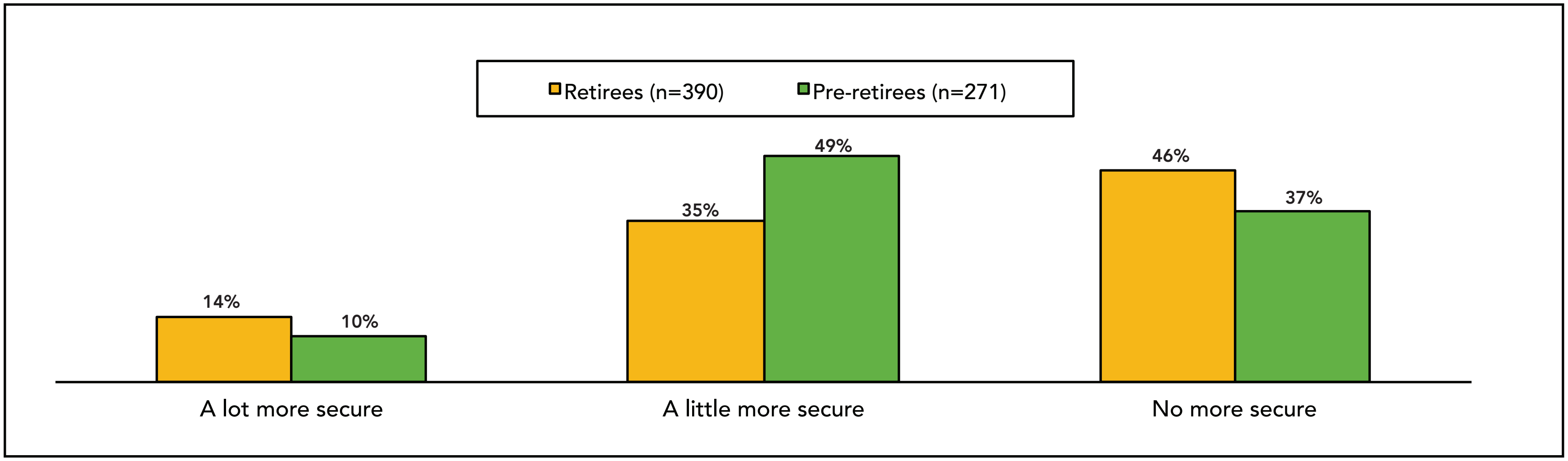
Pre-retirees are more likely than retirees to feel a three-year delay in retirement would make their retirement finances *a lot more* or *a little more* secure (59 percent vs. 49 percent). Almost half of retirees think a delayed retirement would have made them *no more* secure (46 percent), while less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

Discussion

For this question, the more detailed related questions and responses to similar questions in the 2007 survey make it clear that many individuals have not analyzed all the issues relating to delayed retirement. It is important to look at various scenarios when planning, and to do the math, looking at the likely outcome in economic situations based on different retirement timing.

For many Americans, especially those below median earnings, Social Security is a major part of their retirement wealth and income. Monthly income from Social Security increases with retirement age and for those retiring with full Social Security benefits is about 75 percent higher at age 70 than at age 62.

Suppose you retired three years later than you did/plan. Do you think this would make your retirement financially…? (Among those retired/pre-retirees expecting to retire)



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

Respondents see continued employer-provided health insurance as the principal advantage to delaying retirement.

Findings

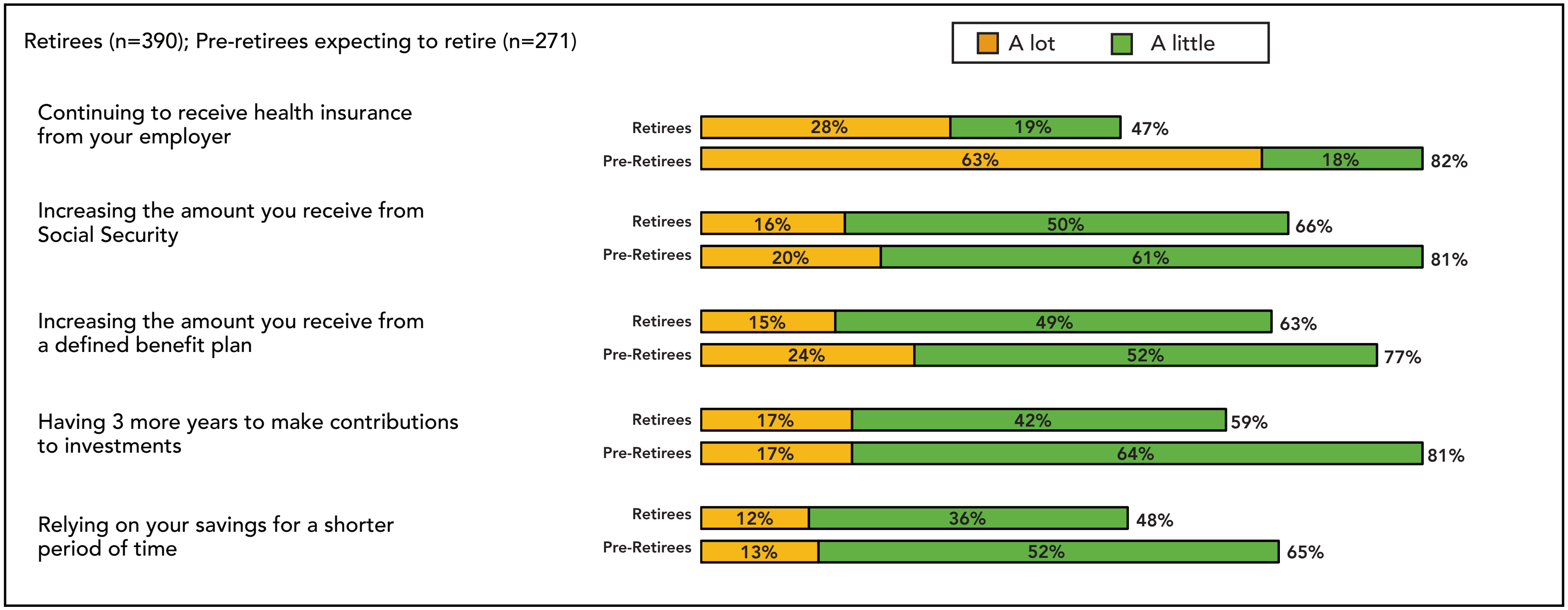
Pre-retirees are more likely than retirees to think that the five factors examined in the survey and listed below would increase their retirement security. In particular, almost two-thirds say that continuing to receive health insurance from their employer would increase their financial security *a lot*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

Discussion

Pre-retirees may not have analyzed the value of a relatively short extension of their working lives in enhancing retirement security. Continuance of their health insurance coverage is, admittedly, a significant benefit for those not yet eligible for Medicare, but which factors will be most important in enhancing retirement security will depend on individual circumstances.

Reliance on assets for a shorter term will be important for many people with substantial investments, as will the higher Social Security benefits that result from delaying retirement. For those with minimal investments, delaying retirement is unlikely to be of much benefit in this regard, while for those with more assets than they need to retire, such a delay may be unnecessary. It would appear to be a more significant factor for those on the borderline between having insufficient investments and having enough, but unless their final savings are much higher than in the earlier years of their working lives, the benefit from those three extra years may be illusory. These findings are not that dissimilar to the 2007 results.

[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

Most agree it is important to consider health and longevity when reviewing 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.

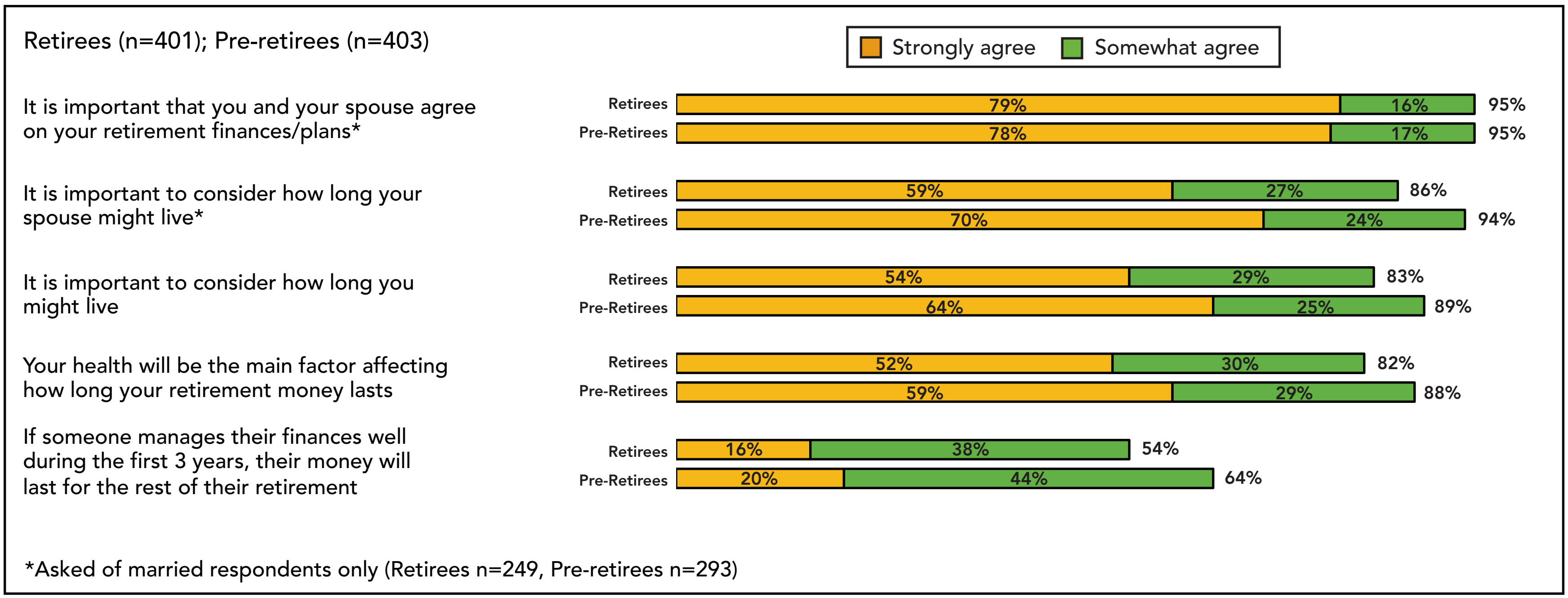
Discussion

Other SOA surveys have shown that while many people have a reasonably good understanding of their own and their spouse's life expectancy, they do not appreciate the sizeable variances around the average values and the serious financial consequences of living many years beyond the average. This may seem surprising in light of the significant concern expressed by pre-retirees and retirees alike about outliving their financial resources.[1]

ENDNOTE:

[1] Longevity: The Underlying Driver of Retirement Risk, Society of Actuaries, July 2006

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

Planning horizons are far too short, covering only a fraction of the time most people are likely to spend in retirement.

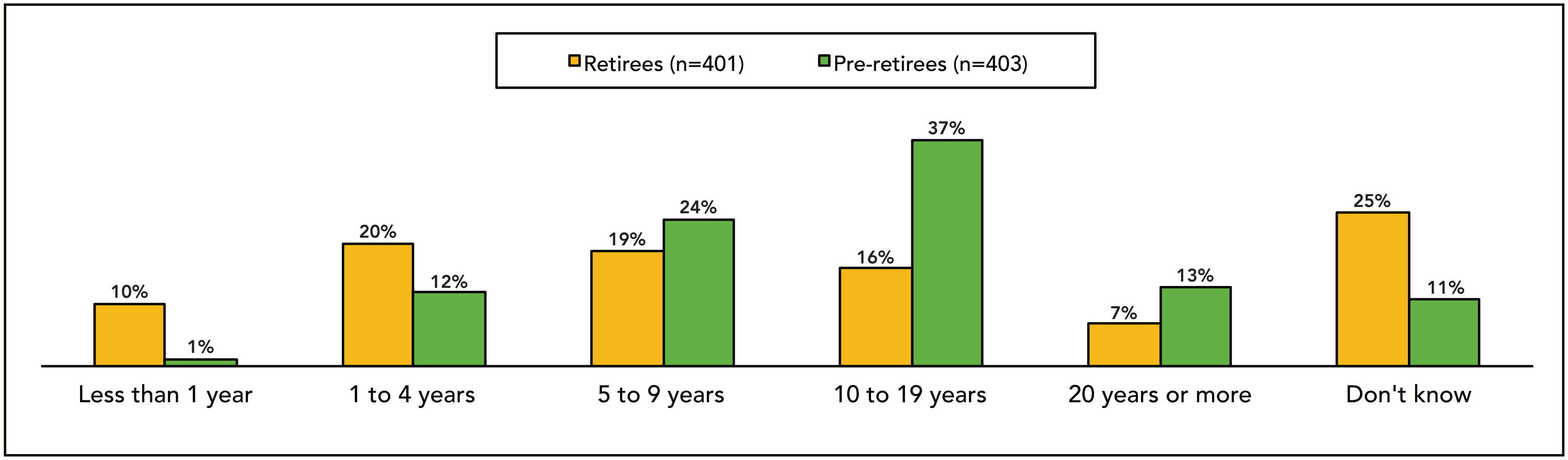
Findings

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 years or more into the future when making important financial decisions. More detailed analysis shows that in terms of their life expectancies, the number of respondents planning that far ahead is even smaller, with a mere 5 percent of pre-retirees and 11 percent of retirees having a planning horizon to or beyond life expectancy.

Discussion

Though longevity is considered critical, few respondents looked ahead even as far as their life expectancy. These findings and others from SOA research confirm that most people do not take sufficient account of the potential length of their retirement in making important financial decisions. Even among those who do, many assume that planning through their life expectancy is sufficient, with little or no awareness of the financial consequences of the one-in-two chance that they may live past that point.

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

At least half of respondents have taken or plan to take important retirement planning steps.

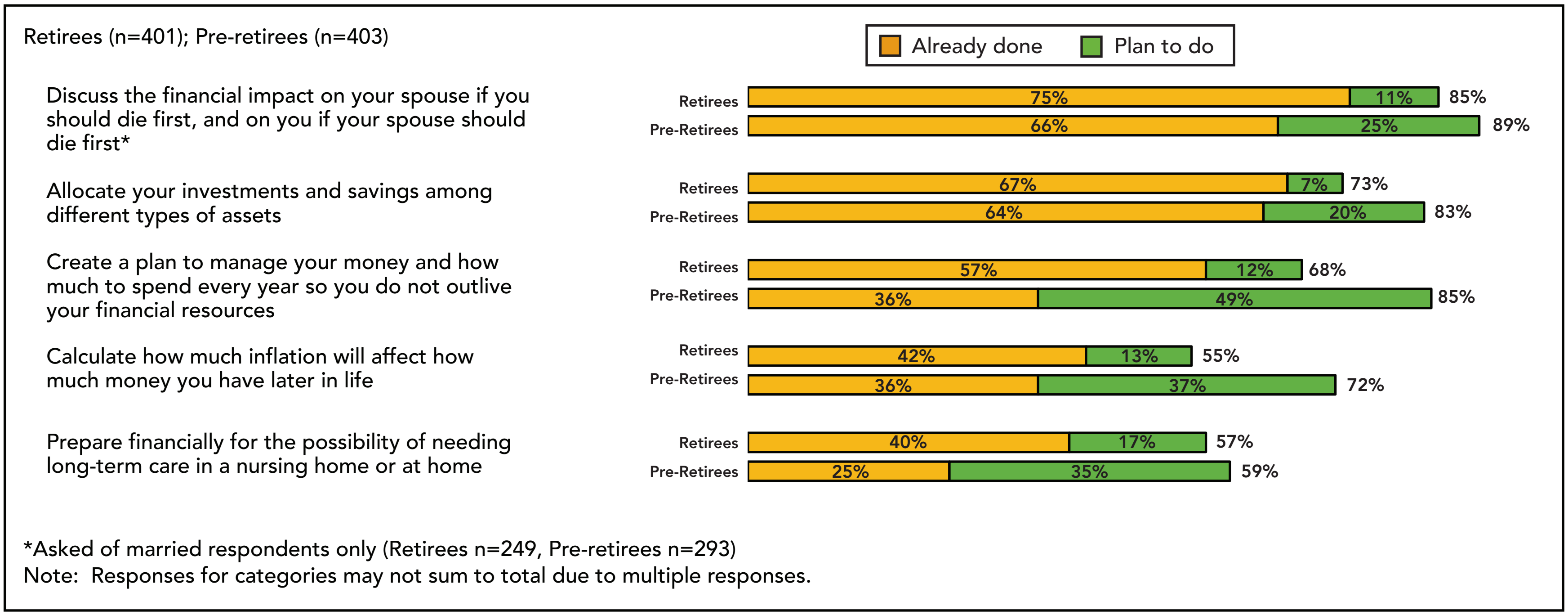
Findings

While majorities of retirees and pre-retirees report they have already done or intend to do the types of planning activities listed in the survey, they are less likely to calculate the effects of inflation (55 percent of retirees, 72 percent of pre-retirees) and prepare financially for the possibility of needing long-term care (57 percent of retirees, 59 percent of pre-retirees).

Discussion

These survey findings suggest that both pre-retirees and retirees are taking the management of financial planning issues seriously. However, particularly in planning for long-term care and the effects of inflation it appears that more education is required. Planning for inflation will be especially challenging given the increasing longevity of today's and future retirees.

With regard to your retirement finances, have you or do you plan to … ?



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

Few retirees have a well-defined plan for withdrawing money from savings and fewer than half of pre-retirees say they have such a plan. Many make or will plan to make such withdrawals on an *ad hoc* basis.

Findings

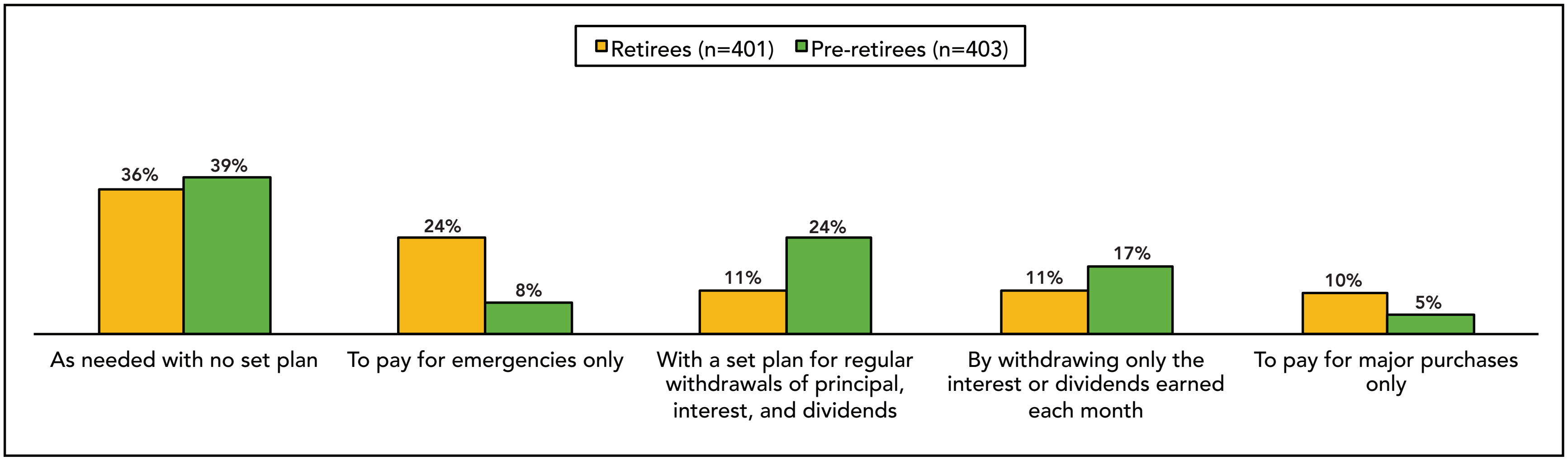
Most often, retirees withdraw money as needed from savings with no set plan (36 percent) and pre-retirees plan to do the same (39 percent). One-quarter of retirees (24 percent) and one in 10 pre-retirees (8 percent) say that the money should be used to pay for emergencies only.

Others have some sort of plan for withdrawing saving, either a set plan for regular withdrawals of principal, interest, and dividends (11 percent of retirees, 24 percent of pre-retirees) or by withdrawing only the interest or dividends earned each month (11 percent of retirees, 17 percent of pre-retirees).

Discussion

These results reinforce the need for more planning. At the same time, they do not necessarily indicate a problem. Some retirees have regular income that covers basic expenses, but others do not. For retirees whose regular income does not cover normal expenses, a regular plan is very desirable, and it also may be helpful to buy an annuity so that expenses are covered. Other studies show that some retirees use assets too fast, while others are reluctant to dip into savings at all and live at a lower level than necessary. In any case, an emergency fund is very important to cover unexpected home and car repairs, medical costs, and other emergencies.

Would you say that your (retirement) savings is money that (should/in retirement will) be used…? (Top mentions)



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

Except for outright sale of their homes and potential downsizing, use of home equity to finance retirement is not seen as an attractive option, neither by pre-retirees nor retirees.

Findings

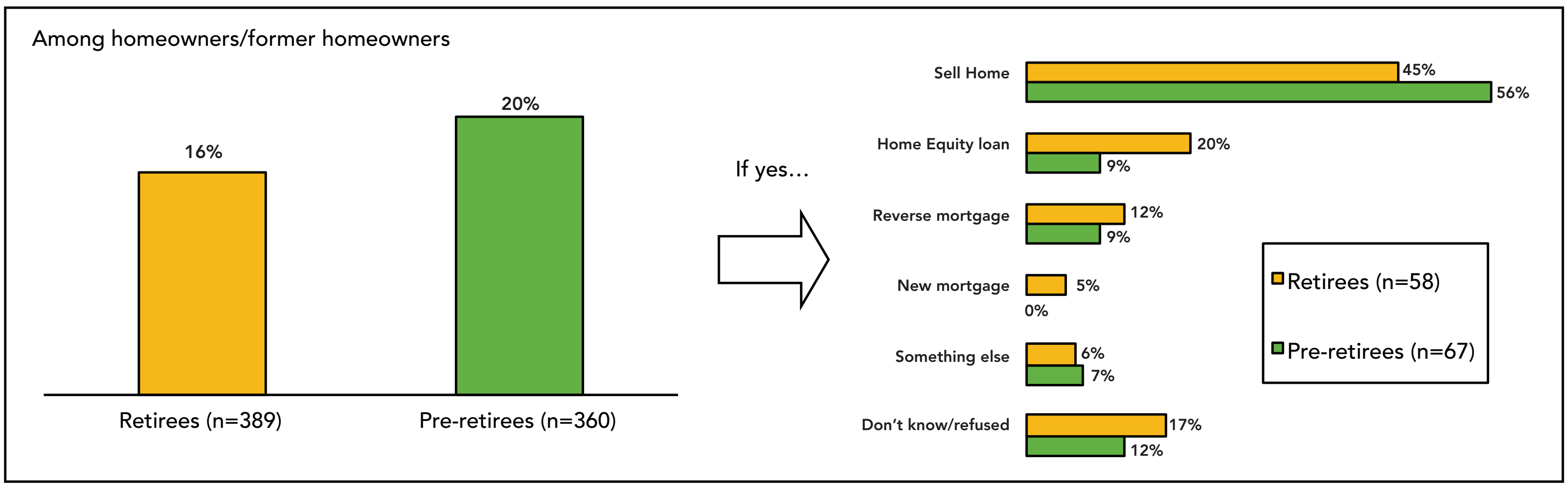
Only about two in 10 retirees (16 percent) and pre-retirees (20 percent) have already used or plan to use equity in their home to help finance their retirement. Those who do generally plan to tap into their home equity by selling their home (45 percent of retirees, 56 percent of pre-retirees). They are 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

For many Americans, investment in their homes is their largest single asset, as well as their largest item of expense. The selection of a house can also be a major determinant of transportation needs and other family activities. Even for middle-income and moderately affluent Americans in their critical pre-retirement years (55-64), non-financial assets, principally home equity, may represent as much as 70 percent of total assets exclusive of pensions and Social Security. However, while a significant asset, real estate is not liquid and, especially during the recent economic and financial turmoil, much more difficult to sell than in the early years of the new millennium.

Paying off a mortgage can be an important part of holding down expenses and reducing the need for income during retirement. While use of home equity through loans or reverse mortgages was not popular among survey participants in 2009, especially retirees, it is conceivable that the role of housing as a retirement asset will become more critical in the future.

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

Both retirees and pre-retirees expressed concern about their ability to pay for health and long-term care, but the degree of these concerns could change with implementation of the 2010 health care legislation.

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.

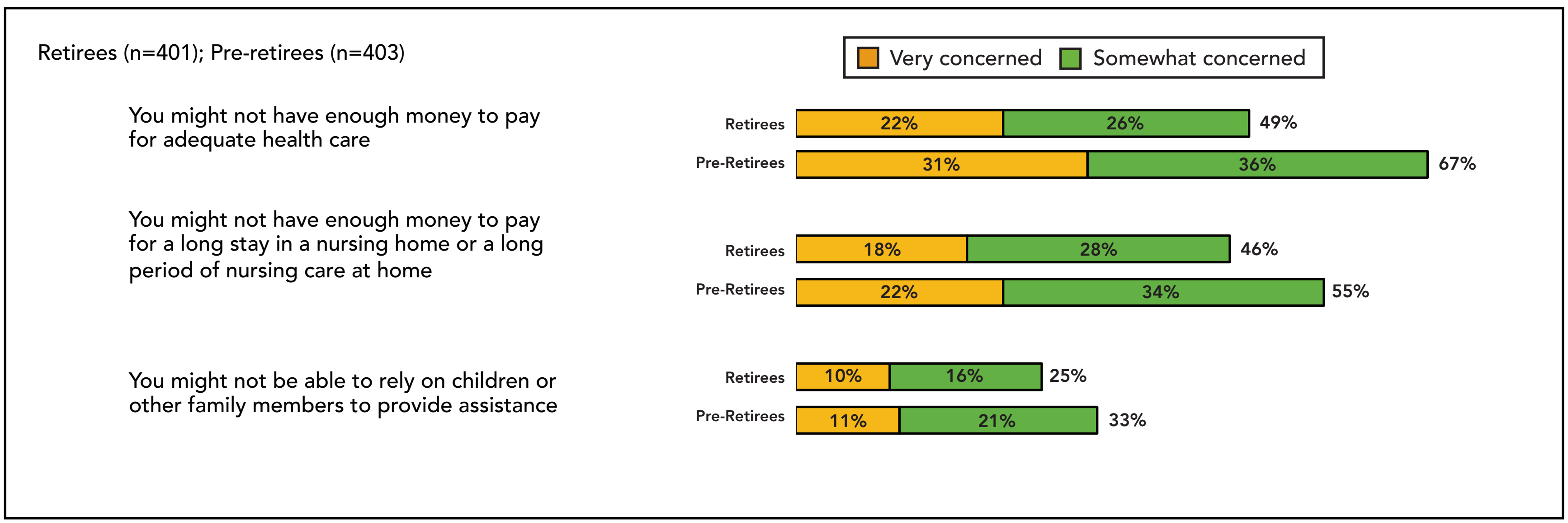
Both retirees and pre-retirees are much less likely to say they are concerned about not being able to rely on family members for assistance (25 percent of retirees, 33 percent of pre-retirees).

Discussion

The field work for this survey was done during the discussion of health care reform, but results are quite similar to those in the past. Medicare pays for a substantial share of acute care costs but very little long-term care. Many people will have significant long-term care expenses. It is puzzling why there is not more concern about long-term care as compared to acute health care.

Early retirees often have major problems securing health insurance prior to age 65 if they do not have employer coverage. This situation is expected to change in 2014 as a result of Health Reform and will be closely monitored in subsequent surveys.

How concerned are you that… (in retirement)?



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

Pre-retirees are especially concerned about inflation and interest rate risks, although these concerns are also felt by retirees.

Findings

Pre-retirees are more likely than retirees to express concern about inflation, investment and some longevity risks. Seven in 10 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.

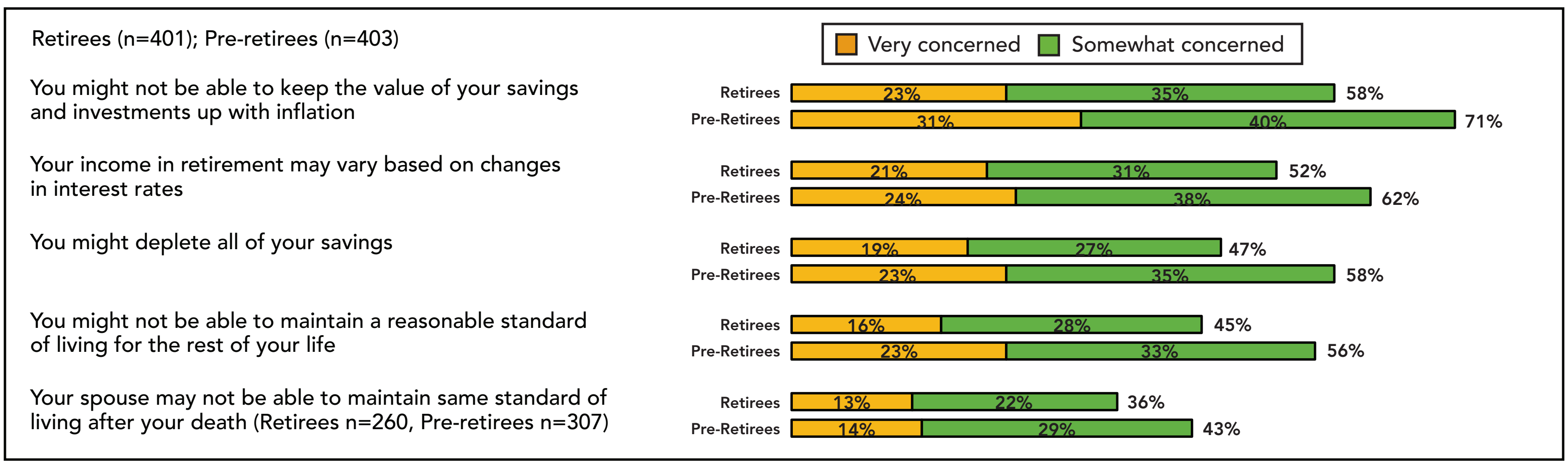
While pre-retirees are more likely than retirees to report being concerned about depleting their savings (58 percent vs. 47 percent) and maintaining a reasonable standard of living (56 percent vs. 45 percent), they are equally likely to express concern about their spouse's standard of living after their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

Discussion

Over time, pre-retirees have been consistently more concerned than retirees about inflation and interest rate risks, and these concerns have been quite consistent.

Even though it has abated in the past two years, inflation has regularly been one of the three top concerns. It should be noted that many older people are affected differently by inflation than society as a whole because of the impact of health costs (including cost sharing in employer plans and Medicare Part B premiums), and energy and food costs. Offsetting this is the apparently greater adaptability of many retirees to cut back on some luxury items they previously considered necessities.

How concerned are you that… (in retirement)?



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

Most think they would be unaffected financially by the death 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).

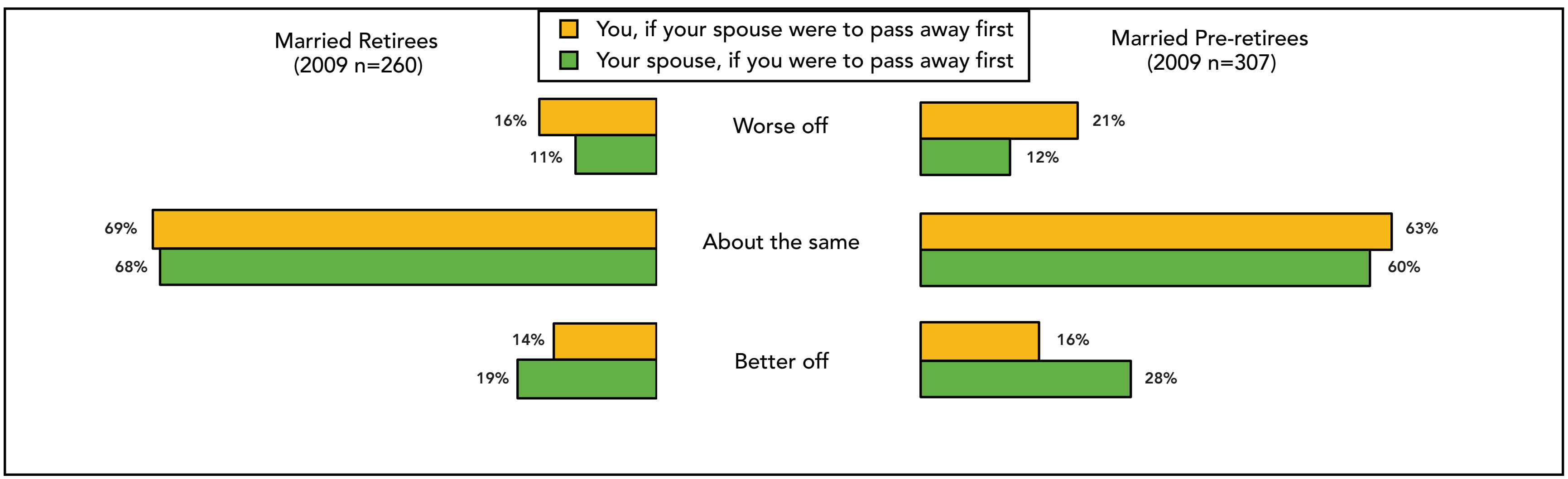
Discussion

This is a confusing and potentially disturbing result. For most couples the husband dies first, and many widows experience a significant decline in economic well being as a result.[1] Depending on family situation, widows receive between 50 percent and 66 2/3 percent of a couple's Social Security benefits, while living costs average about 75 percent of those of the couple. Four out of 10 elderly women living alone have little income beyond Social Security and little else in the way of financial resources. These results show the importance of more planning specifically focused on the surviving spouse.

ENDNOTE:

1 More information about issues related to women can be found in the report in this series titled, "The Impact of Retirement Risk on Women."

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

For managing health costs, virtually all respondents say that maintaining healthy lifestyle habits is their primary strategy, with insurance and use of savings in distant second and third place.

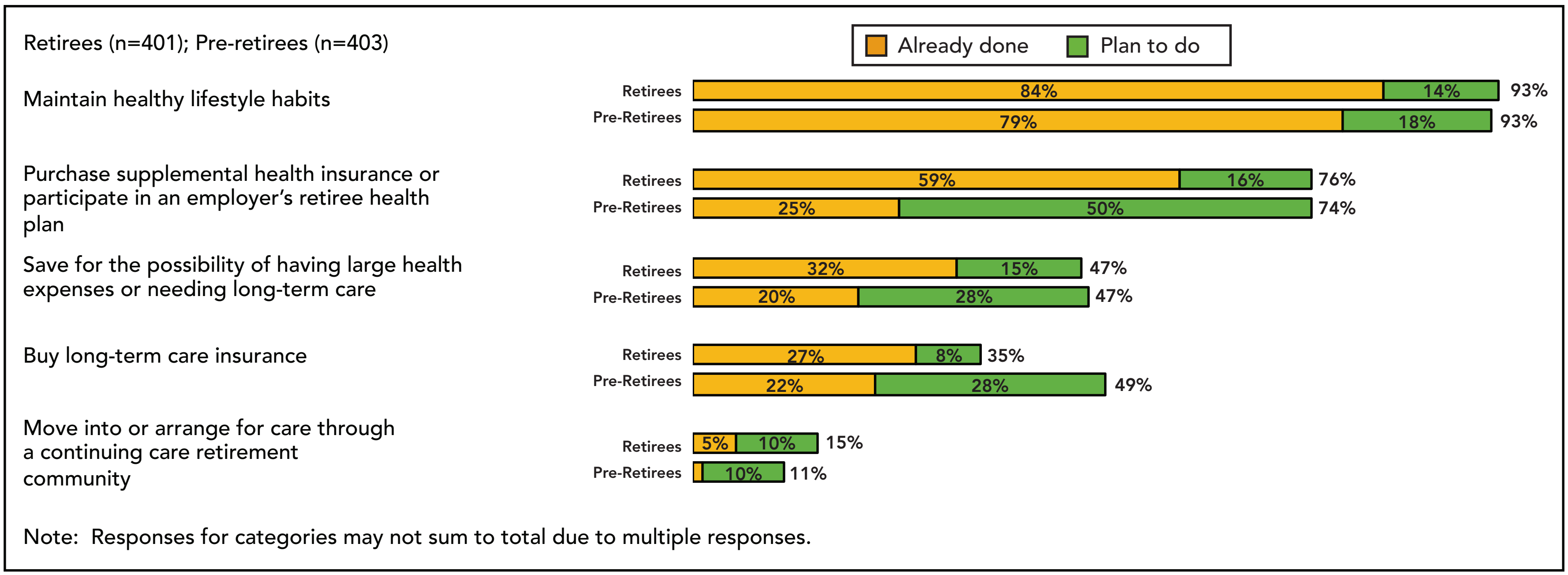
Findings

Few turn to risk-reducing insurance products other than supplemental health insurance to help them manage health costs. 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

It is very encouraging to see the high proportion of individuals saying that they are working to maintain healthy life styles. However, many people probably have a long way to go to be effective at doing this. Supplemental medical insurance is the risk management product most preferred by retirees. The percentage saying they have bought or are planning to buy long-term care insurance seems very high compared to actual purchases. There is much more interest in supplemental medical insurance than in long-term care insurance, even considering what Medicare does and does not cover.

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



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

A majority of pre-retirees indicate debt reduction is a way they plan to manage 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).

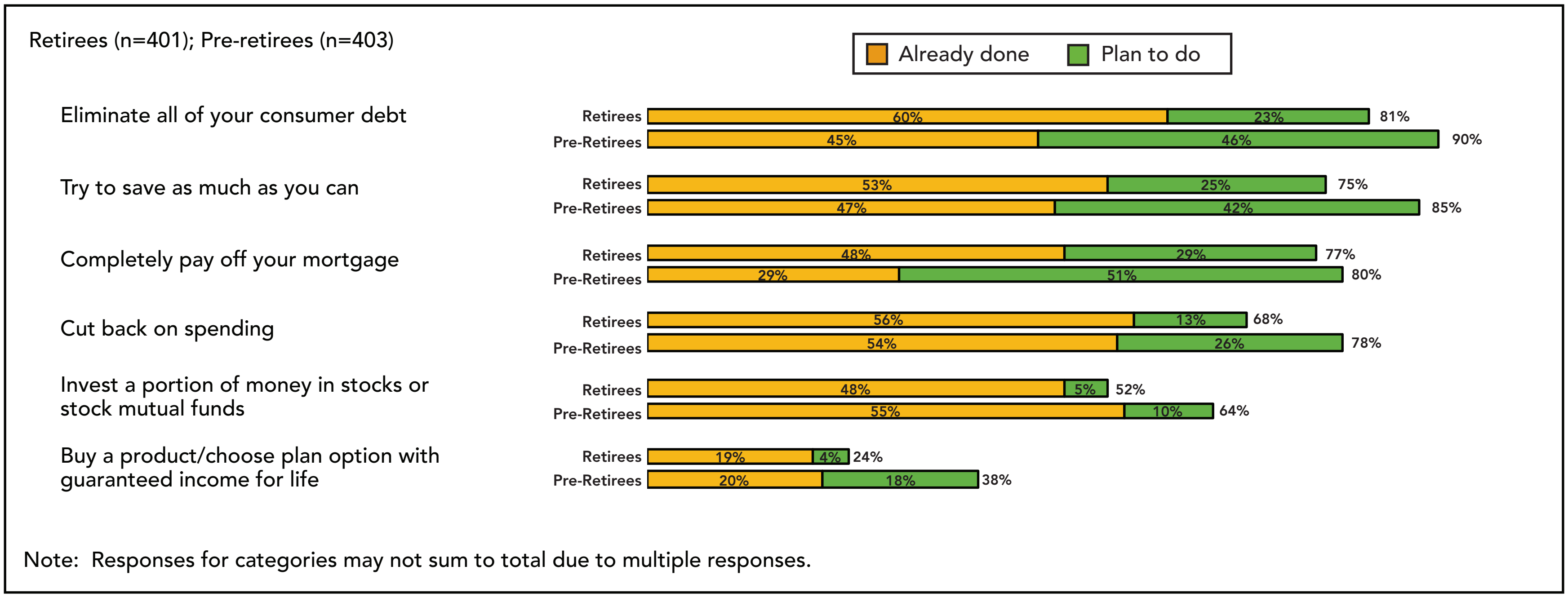
Discussion

Debt reduction and saving are strategies consistently cited among retirees, and interest in financial products seems consistently low. These strategies may work quite well in the short term, but as evidenced in the discussion on page 7, they do not work well for people who live very long, and offer only limited protections to surviving spouses. As a consequence, the percentage of income coming from Social Security increases with age, and four out of 10 older women living alone have virtually no other income than Social Security.[1]

ENDNOTE:

[1] See "When to Take Social Security: Questions to Consider" by the National Academy of Social Insurance for further information, at www.nasi.org/research/2010/when-take-social-security-questions-consider

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



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

Observations from Other Studies

BESIDES THE 2009 RISKS AND PROCESS OF RETIREMENT SURVEY, the Society of Actuaries has recently conducted research and related studies, highlights of which are presented here. ***Will Retirement Assets Last a Lifetime?*** addressed in 2008 several of the issues covered in this 2009 survey relating to strategies for spending and investing in retirement, although it focused exclusively on retirees aged 55 to 75 with investable assets of at least $100,000. The study ***What a Difference a Year Makes***, comparing responses from the 2008 study to the same questions repeated in 2009, provides early insights into the impact of the financial and economic turmoil on retirees' plans. A third study, ***Spending and Investing in Retirement***, took information from six focus groups geographically spread across the United States of retirees aged 60 to 72 who had been retired at least two but no more than 10 years. The participants in these groups had investments of up to $500,000 in qualified employer-sponsored plans, typically 401(k)s, and between $100,000 and $2 million in total investments. They were, thus, more homogeneous and considerably more affluent than the typical participant in the 2009 survey.

When to Retire?

Perhaps the most significant finding from the six focus groups was that decisions regarding the timing of retirement are not always well planned, or even rational. The disparity between when pre-retirees say they expect to retire and when retirees actually do often amounts to several years. As with respondents to the 2009 survey, the reasons given for earlier than planned retirement were quite varied and are discussed in this report. The decision as to when participants in the focus groups planned to retire ran the usual gamut, although some of these did not seem exactly logical. For example, some suggested that it was based on the age at which their parents had retired, although it was unclear what relationship that had to their own plans. In most cases, however, the consequence of having to retire well in advance of when one planned is forgone income and savings in those final years that people had intended to work. In addition, their subsequent smaller pension and asset accumulations would need to be spread over a longer period of retirement.

Having a Financial Plan

For those who had developed a financial plan, whether or not they retired when they had intended, their calculations often revealed inadequate consideration of inflation risk, market volatility and their own longevity in evaluating how many years their assets might last. Many retirees had a good understanding of their living expenses and some had a reasonably accurate sense of their life expectancy at retirement and had projected their income needs accordingly. However, few thought they would reach their 90s. There was practically no recognition of the financial consequences of living to extreme old age, and little interest in purchasing annuities to cover such a contingency. For retirees at the lower end of the earnings spectrum Social Security is the principal, and in some cases their sole, source of income. But even among middle income and more affluent retirees—those in the category described above with investments of $100,000 and more—few had a well-defined plan for spending those funds. The more common response was that they would attempt to live on their pension and Social Security income, supplemented in some cases by interest and dividends, and not touch investment principal until forced to take a distribution from their qualified plans or use such funds for emergency purposes only.

Impact of the Financial and Economic Turmoil

The challenging economic climate of 2008-09 has obviously affected retirees' spending habits, but not as seriously as some have imagined. They do feel less secure, are less confident that they saved enough for retirement, and have become more conservative in their investing. Those with significant assets are more likely than ever to depend on a financial advisor, even though there was considerable distrust of such professionals. On the other hand, retirees continue to demonstrate remarkable resilience in adjusting their spending to meet the new realities imposed on them in an environment of lackluster equities performance and extremely low interest returns on their fixed-income assets. One study by the Center for Retirement Research (CRR)[1] attributes a loss of more than $2 trillion in defined contribution plans to the stock market downturn, or about one-third of the total before the decline. Among pre-retirees, their study shows 32 percent planning to work longer to make up for the loss, 10 percent increasing their savings, or planning to do so, and another 8 percent intending to do both. About the only silver lining is that for those now retired and dependent solely or almost entirely on Social Security, their resources have not been as affected by the economy as have those of more affluent retirees who are now feeling the impact of lower dividend and interest income.

ENDNOTE:

1 "How Do Responses to the Downturn Vary by Household Characteristics?", The Center for Retirement Research at Boston College, Norma B. Coe, Kelly Haverstick , 2010

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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.*

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