What Retirees Say About Retirement May Surprise You

Focus groups with pre-retirees and retirees provides unique insight into retiree behavior.

By Anna Rappaport and Carol Bogosian

Plan sponsors invest a great deal of effort in providing retirement benefits that will help their employees have a successful retirement. They have invested in benefits, in financial education, and more recently in financial wellness. Research from the Society of Actuaries offers insights to help sponsors better tailor these programs to what employees actually expect and how they behave.

The Society of Actuaries (SOA) has conducted a survey of public perceptions of post-retirement risk every two years from 2001 to 2017. While there are many organizations that have looked at the public's knowledge and attitudes about retirement and retirement planning, the SOA studies have a different perspective as they have focused on the post-retirement period. The SOA surveys include repeated core topics along with topics of special emphasis that vary from study-to-study.

The SOA has also conducted focus groups and in-depth interviews with retirees at various points during retirement, with the most recent interviews conducted in 2017 with individuals age 85 and up. In 2015 the focus groups were with individuals retired 15 years of more and the 2013 focus groups were with individuals retired less than 10 years. The results from these studies in the aggregate, together with the risk survey series, provide a picture that moves through the full retirement period. The surveys are based on United States retirees and the in-depth interviews and focus groups include both the United States and Canadian retirees.

Risk Survey Series Findings:

- Paying for health care, long-term care and inflation are repeated as top concerns for pre-retirees and retirees, but the priority order of these concerns changes.
  - Pre-retirees are more concerned than retirees about most risks.
- Retiree experience differs from pre-retirees' expectations in:
  - Timing of retirement — Retirees stopped working substantially earlier than pre-retirees expect to retire.
  - Pre-retirees expect their spending to decrease, while most retirees report their spending generally remains the same in retirement.
- In the 2017 survey, pre-retirees showed higher levels of risk concern than in 2015.
- The most common risk management strategies are increasing savings, paying off debt, and reducing spending. In 2017, more so than in 2015, majorities of pre-retirees plan to eliminate all consumer debt and completely pay off their mortgage.
- Pre-retirees have consistently expected to work longer than retirees actually did. Pre-retirees are more likely in 2017 than they were in 2015 to say they plan to work longer.
- Workers and retirees in 2017 were more likely than in 2015 to say they have bought, or plan to buy, a product that provides guaranteed lifetime income. Very few actually buy such products.
- Baseline knowledge and understanding of retirement financial risks have been relatively consistent over the survey series.
- Gaps in knowledge and financial literacy continue to exist. There is a particularly serious gap as it relates to long-term care.
- Planning horizons are relatively short. Consumers often plan for shorter-term cash flows and not the long-term.
- When questions have been asked about Social Security claiming, more people plan to claim later than retirees actually did.
- There are major differences in results by income level. Levels of concern are higher at lower incomes and the strategies that are most commonly used vary by income level.

Key Issues from the Special Focus Topics:

In each survey there are three topics of special focus. Specific reports are issued for each survey on these topics and these reports combine risk survey results with other information. In the 2017 survey, the special topics were financial wellness, housing, and long-term care and caregiving. Some of the important issues raised by these topics are highlighted here.

Financial Wellness:

There is a growing recognition that people who can't manage month-to-month expenses will not be able to plan for retirement well, so more employers are weaving retirement education into a broader financial wellness focus. In 2017, the risk survey focused on financial wellness. This section of the survey built on the 2015 survey that focused on financial shocks, debt and expenses. Key findings include:

- A significant proportion of pre-retirees have mortgage debt, credit card debt, and/or a personal loan or car loan.
  - 55 percent of pre-retirees and 29 percent of retirees have mortgage debt.
  - 46 percent of pre-retirees and 36 percent of retirees have credit card debt.
  - 44 percent of pre-retirees and 29 percent of retirees have a personal loan or a car loan. Debt can be a problem for families of all ages. It is a problem for fewer retirees than pre-retirees.
- Debt and expenses are both critical issues. Many retirees are frugal and tend to reduce expenses during retirement.
- It is clear that the majority of Americans do not conduct comprehensive long-term planning, but it is unclear how much difficulty this causes. Most do not plan for financial shocks, and many people are vulnerable to problems created by such shocks. The shocks that seem particularly likely to create major problems are a major long-term care event, divorce in retirement, and children who need ongoing and repeated financial help.
- Many people do not have basic financial planning documents in place.

Housing Decisions:

Most people prefer to stay in their homes throughout retirement, but many suffer from limitations later in life so that this is not possible. There are major decisions that must be made with regard to housing and mortgages as housing is the largest expense for most retirees. Most people prefer not to use home equity to fund retirement, but for those individuals without significant financial assets, their home value is often their largest asset.

- In the survey, 37 percent of pre-retirees indicated that they would be willing to use their home value to help fund retirement.
- While reverse mortgages have gotten more attention lately and offer a way to use home values, they are very unpopular with survey respondents.
- Access to health care and low maintenance are valued attributes of housing, but there was not a very big difference between a long list of other attributes.

It is very likely that the interaction of housing and retirement will get increased attention in the future.

Long-term Care Planning and Caregiving:

Long-term care is a huge issue for many people. Only about 10% have long-term care insurance, and most households will have major problems if there is an event requiring a long period of paid long-term care. Many people have served as caregivers for other family members or will be asked to do so. The survey indicated:

- People vastly overestimate the extent to which Medicare and health insurance cover long-term care.
- People seem to overestimate their ability to pay for long-term care.
- The failure to plan for long-term care is a big problem.
- Employees who are providing caregiving could use some support.

Results from the Focus Groups and In-depth Interviews:

In 2017, the SOA focused on age 85 and over individuals. In-depth interviews were completed with individuals age 85 and over and their adult children. This research followed up on focus groups conducted in 2015 with individuals retired 15 years or more. When taken together, the two sets of research offer some very interesting observations:

- What people do and their preferences do not fit traditional planning paradigms. For example, traditional planning is expected to be longer-term, while many people plan for the short-term.
- Many of the retirees seem quite able to adjust to many different circumstances, and they deal with a variety of circumstances with flexibility and resilience.
- Many long-term retirees spend significantly less than they did earlier in retirement. The main exception to this is medical expense spending which increases over time.
- Retirees indicate that they are frugal and many longer-term retirees are more frugal than they were earlier in retirement.
- Financial management is most often focused on short-term cash flow management. Many of the retirees try to avoid spending down assets and withdraw only the required minimum distribution from tax-deferred retirement accounts. They adjust their spending to their income as much as possible.
- A big problem that the majority are not prepared for is a major long-term care event requiring assisted living, nursing home care, or significant paid care at home. These events

can easily lead to spending down of assets.
- While family is often not included in planning, when people need help at high ages, the first source of help usually comes from family members. Where there is no spouse, adult children are the next source of help. Women are more likely to be alone in old age, and less likely to have a family member to help them. This is often not planned and employers may find that suddenly their employees are spending considerable time helping aging parents.

The interviews and focus groups covered both the United States and Canada. There were many similarities between individuals in the United States and Canada, but there are also some key differences. The market for long-term care services is quite different in Canada and the services are less expensive. Health care financing is also very different in the two countries, but for the age 85 and over individuals, there did not seem to be many other major differences. The older retirees in both countries relied heavily on the public programs, and had most of their acute care covered by these programs as well as supplemental insurance.

Key Issues for Employers and Plan Sponsors

Employer-sponsored retirement programs are very important for building retirement resources for many households. Employer-sponsored long-term care insurance can also be a valuable benefit. Such programs are often the only source of outside financial information, advice and coaching that middle-income households use. The research helped us identify a number of features for inclusion in a financial wellness or retirement programs:

Making plans work well for employees who are passive

The surveys show both gaps in financial literacy and that many people do not plan for long-term care. The focus groups indicate that they do not conduct long-term calculations. Defaults in plans that produce reasonable results for employees who do not make active choices are critical to plan success.

Supporting well-thought-out drawdown strategies

The research indicates that many individuals try to hold onto assets rather than planning to use them, and that they commonly only take the required minimum distributions. A key issue for people reaching retirement age is what is the best way to use assets in retirement and a key issue for employers is what role they wish to take in the drawdown period. Society of Actuaries' research on income options offers employers ideas to consider and a new way to evaluate alternatives.

Social Security benefit claiming

The age at which benefits start makes a huge difference in the value of benefits received, and the income that some households have. For many middle-income households, Social Security is the largest source of income and sometimes the only one. For couples, an integrated strategy is important. Yet the research shows that many people claim early, and earlier than pre-retirees expected to claim. Financial wellness programs can offer a strong message about the importance of evaluating options and information about where to find tools to analyze their claiming options.

Understanding lifespans and having a long-term planning horizon

The research demonstrates that many people plan for the short-term rather than the long-term and many also underestimate lifespans. The Actuaries' Longevity Estimator is a tool that is available free of charge to help individuals understand expected lifespan and the variability of lifespans.

Supporting strong long-term care planning and caregiver support

Employers can help employees with providing information about long-term care planning, by enabling group purchase of long-term care insurance and by providing support to caregivers.

Debt and spending

These are key issues throughout adult life, and linked to retirement security. Financial wellness programs offer the potential to help employees and retirees deal with both of these challenges.

References and resources from the Society of Actuaries:

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   - *Post-Retirement Experiences of People Retired for 15 Years or More, Society of Actuaries, 2016* https://www.soa.org/research-reports/2016/2016-post-retirement-experience-15-years/
   - *The Decision to Retire and Post-Retirement Financial Strategies: A Report on Eight Focus Groups, Society of Actuaries, 2013* https://www.soa.org/research-reports/2013/The-Decision-to-Retire-and-Post-Retirement-Financial-Strategies--A-Report-on-Eight-Focus-Groups

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5. Actuaries Longevity Illustrator: http://www.longevityillustrator.org

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American Retirees: Looking Back, Looking Forward

Tomorrow's retirees are unlikely to repeat yesterday's retirement experience.

By Jack Towarnicky

Retirement Age

Historically, workers have left the workforce earlier than expected. Surveys[1] confirm a chasm between median age at retirement (62) and median expected age at retirement (65). Just 9 percent say they plan to retire before age 60. However, 39 percent of today's retirees did retire early. Today, 38 percent of workers say they expect to retire at age 70 or more whereas in the past, less than 5 percent did! What would the impact be on your organization if half of your workers decide to continue working to age 70+?

Debt

The SOA Risk Analysis and other studies[2] reflect major shifts in debt among older Americans (NY Federal Reserve Bank comparison of 2003 with 2015). See table.

Mortgage debt increased due to changes in employment after the Great Recession as well as home equity practices (including reverse mortgages). From 2005 to 2015, we've seen dramatic increases in student loan debt for those aged 60 or more — in 2005 approximately 700,000 owed an average of $12,100 whereas in 2015 2.8 million owed an average of $23,500. 73 percent owe on behalf of a (grand)child. And, the number of age 65+ borrowers who had student loan offsets for Social Security benefits increased from approximately 8,700 (2005) to about 40,000 (2015)!

Roth

The SOA Risk Analysis and other recent studies[3] suggest a greater portion of retiree income comes from sources other than retirement savings — suggesting a $44,400 median income among age 65+ households. One result is that "…many of the retirees try to avoid spending down assets and withdraw only the required minimum distribution. …" If so, plan sponsors should consider the value-add that is possible from Roth contributions and Roth conversions.

Jack Towarnicky is PSCA's Executive Director.

Debt Type	Age 30 $	Age 30 %	Age 65 $	Age 65 %
Home-secured	–$8,195	–28%	+$11,191	+47%
Credit card	–$1,121	–36%	–$11	0%
Auto loan	–$292	–6%	+$1,102	+29%
Student loan	+$6,912	+174%	+$857	+886%

[1] Society of Actuaries, Committee on Post-Retirement Needs & Risks, Risk Series, Accessed 3/19/18 at: https://www.soa.org/research/topics/research-post-retirement-needs-and-risks/#risksurvey See also: Lisa Greenwald, Craig Copeland, Jack VanDerhei, 2017 Retirement Confidence Survey, Greenwald & Associates and Employee Benefits Research Institute, Accessed 3/19/18 at: https://www.ebri.org/pdf/surveys/rcs/2017/IB.431.Mar17.RCS17..21Mar17.pdf

[2] SOA, Supra, Note 1. See also: Meta Brown, The Graying of American Debt, Federal Reserve Bank of New York Research and Statistics Group, Microeconomic Studies, February 12, 2016, Accessed 3/19/18 at: https://www.newyorkfed.org/medialibrary/media/newsevents/mediaadvisory/2016/Graying-of-American-Debt-02122016.pdf See also: Consumer Financial Protection Bureau, Snapshot of older consumers and student loan debt, January 2017, Accessed 3/19/18 at: https://files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf

[3] SOA, Supra, Note 1. See also: Adam Bee, Joshua Mitchell, Do Older Americans Have More Income Than We Think?, U.S. Census Bureau, July 2017, Accessed 3/19/18 at: https://www.census.gov/content/dam/Census/library/working-papers/2017/demo/SEHSD-WP2017-39.pdf