*Full Report*


# The Financial Recovery for Retirees Continues

## The Impact of the 2008–2011 Financial Crisis

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009058-0911 (755-48-0-R29)

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***— Have retirees' financial attitudes and actions changed since 2008? —***

## Introduction

Since 2008, the financial atmosphere around the world has been in constant change. The 2008 downturn experienced in the United States has been followed by a rollercoaster-like recovery period. And this financial turmoil includes worldwide economic chaos, as well as the U.S. debt ceiling crisis in the summer of 2011.

To measure the effects of the dramatic financial downturn on retirees' finances, the Society of Actuaries (SOA), LIMRA, and the International Foundation for Retirement Education (InFRE) have followed up with the respondents of a 2008 study. In 2009 and again in 2011, the three organizations investigated how these same respondents have been reacting to the long-term effects of the 2008 market downturn and the continuing financial upheaval.

The original 2008 quantitative study of 1,524 retirees aged 55 to 75 with $100,000 or more in household investable assets was conducted in February 2008, prior to the financial downturn. Its intent was to gain an understanding of how retirees with investable assets make decisions about investing, and purchasing financial products. The 2008 findings were presented in the report, *Will Retirement Assets Last a Lifetime?* The motivation for updating this report was to assess how the 2008 financial crisis and economic downturn impacted the original survey participants.

The 2008 participants were re-contacted in April 2009 and posed a subset of the original questions via an online survey. The report, *What a Difference a Year Makes,* presents the results of the 2009 survey compared with the original 2008 study. The 2011 study was fielded during the end of June 2011 prior to the culmination of the U.S. debt ceiling crisis. This 2011 report explores the attitudes of 461 retirees who were in the original 2008 and 2009 studies, and the results are contrasted with those of the two prior studies. It should be remembered that this group of respondents is now older and has been retired longer.

***Major Themes***

Several major themes appear in the 2011 results. Overall, it is evident that the financial crisis that began in 2008 impacted the mindset and financial outlook of these retirees. By 2011, while some of the behavior changes seen in 2009 were still present, feelings came closer to those found in 2008 in other respects. It should be noted that the resolution of the debt ceiling issue and the fiscal problems in Europe leading to market declines and instability in August 2011 took place after the survey was fielded.

The 2011 study finds that retirees:

- Feel more financially secure than in 2009, but not quite as secure as in 2008.
- Are more confident than in 2009 when it comes to having saved enough for retirement, but are less confident than they were before the financial crisis in 2008.
- Have not changed their risk tolerance level since 2009 when they were more conservative than in 2008.
- Have overall less household debt than in 2008 and 2009.
- Continue to control spending at a proportion more similar to that seen in 2009 than in 2008.
- Are just as likely to have financial advisors as in 2009.

# Observations

- Retirees who do not receive enough income from Social Security and/or employer-sponsored defined benefit (DB) pension plans to cover basic living expenses still show little interest in purchasing an annuity.
  - — The proportion of retirees who do not receive enough income from Social Security and/or DB plans to cover their basic living expenses without using their savings, has remained consistent (44 percent in 2011, 47 percent in 2009 and 45 percent in 2008). The level of interest in securing more guaranteed life income among these retirees has not changed. The percentage interested in converting a portion of their savings into guaranteed life income remains in the 30-percent range.
- The proportion of retirees *not* having estimated the number of years their assets and investments *might* last in retirement continues to increase. In 2008, nearly 3 in 10 retirees had not estimated how many years their assets and investments *might* last in retirement and an additional 1 in 10 retirees had never thought about it. By 2009, these proportions had increased to 34 percent and 11 percent, respectively. In 2011, a slightly larger proportion of the retirees have not estimated this figure — 36 percent have not estimated how long their assets and investments might last, while 10 percent have not thought about it.
  - — The relatively large proportion of retirees not performing this aspect of planning is a concern. Some experts had hoped that current economic conditions would encourage more planning, but that has not happened with this group of retirees.
  - — Retirees who calculate how long their money might last are more confident that they have saved enough money to live comfortably throughout retirement than those who do not make this calculation.
- The proportion of retirees acknowledging that assets and investments *need* to last at least 20 additional years continued its downward trend — 65 percent (2008) versus 48 percent (2009) versus 45 percent (2011). The change from 2009 to 2011 may simply reflect the aging of the sample, but the consistent differential from 2008 is substantial. Other research shows that many people underestimate this number — which is a major concern because of the potential for retirees to run out of money. Personal health and family history are the most common factors used to estimate how long retirement resources need to last.
- The 2011 survey reveals that retirees have been paying down their household debt. Forty-six percent of retirees in the 2011study have no debt, compared with 38 percent of respondents in 2009. Eleven percent of the retirees currently have $100,000 or more in household debt, down from 17 percent in 2009.
  - — In the 2011 study, male respondents are more likely than female respondents to have household debt, while retirees between ages 65 and 70 are much more likely to have household debt than those 71 years and older (61 percent versus 42 percent).

— Compared with when they first retired, respondents with household debt of $20,000 to $99,000 feel financially less secure at this point in their lives than their counterparts (with less or no debt, or larger amounts of debt).

— Retirees with low or moderate levels of debt are slightly more risk-averse investors than those with no debt or $100,000 or more in debt.

— Retirees with moderate or large amounts of debt are much less likely than those with little or no debt to spend money on whatever they wish.

- Only a small proportion (6 percent) of the 2011 retirees are *somewhat* or *extremely* aggressive investors when it comes to managing their household investable assets, while 22 percent are extremely conservative.

— Among the retirees without personal financial advisors, 74 percent describe themselves as conservative (somewhat or very), compared with 67 percent of those with advisors. Of those with advisors, 27 percent take a balanced approach to managing their assets compared with 19 percent of those without advisors.

— Overall, the majority of retirees (93 percent) are somewhat or very confident in their investment management strategies.

- Regarding any advice retirees may have received between the beginning of the 2008/2009 market decline and today:

— Seventy-six percent of retirees with financial advisors follow their advisors' suggestions all or most of the time.

— In addition, 2 percent of retirees with advisors have turned complete control of their investments over to their advisors.

- The majority of retirees (61 percent) have someone they consider to be their personal financial advisor.

— Retirees with personal financial advisors have larger amounts of investable assets and higher household annual incomes than retirees without advisors.

— Retirees with advisors are more likely to engage in some aspects of planning and are somewhat more willing to take investment risk up to a point; but, they are *not* more likely to aggressively manage household investable assets.

— Interestingly, compared with when they first retired, a slightly higher proportion of retirees with financial advisors feel financially less secure at this point in their lives than retirees without advisors (29 percent and 26 percent, respectively).

- As in many other studies, females have lower household incomes and investable assets than males. But female retirees also have lower levels of household debt than their male counterparts.
  - Female retirees are conservative and have less risk tolerance.
  - Female retirees are more likely to use financial advisors than are their male counterparts (69 percent and 55 percent, respectively).
  - Among female retirees, nearly half (49 percent) report that Social Security and pensions do *not* provide enough income to cover their basic living expenses and they may have to dip into their savings at some point. A lower proportion of male retirees (41 percent) say Social Security and pensions do not cover their basic needs.

# Implications for Managing Retiree Savings and Income

***Use of financial advisors*** — retirees are just as likely to have financial advisors today as in 2009 (61 percent).

- Many retirees follow their advisors' advice *most* or *all* of the time.
- Retirees with advisors have larger amounts of household investable assets than those without advisors.
- Nearly 6 in 10 retirees with advisors repositioned equity investments during the downturn, compared with slightly more than 4 in 10 retirees without advisors.

***More planning may be needed*** — advisors are overlooking a basic aspect of retirement planning if they are not assessing how long their clients' assets might last in retirement.

- Slightly more than one third of retirees with advisors have not estimated how many years their assets *might* last in retirement, while nearly 1 in 10 have never given it a thought. A slightly larger proportion of retirees without advisors have not made this estimation.
- Since 2008, there has been a 20 percentage-point decrease in the proportion of retirees who thinks their assets *need* to last more than 20 years.

***Risk levels remain unchanged*** — retirees may miss out on higher earnings by being risk-averse.

- When it comes to managing household investable assets, the proportion of retirees classifying themselves as conservative (extremely or somewhat) during the past 2 years has remained unchanged; 70 percent of retirees still say they are conservative — compared with 53 percent in the spring of 2008.
- A much larger proportion of retirees in 2011 have not changed their risk tolerance level in the past 12 months than in the 2009 study (74 percent and 57 percent, respectively).

***Low interest in additional guaranteed income*** — retirees who do not have enough income from Social Security and pension plans show little interest in converting assets into guaranteed income. Clients may benefit from a better understanding of guaranteed income products and options if presented information in face-to-face meetings or through simplified marketing materials.

- Among retirees lacking income from Social Security and pensions to cover basic living expenses, the proportion interested in converting a portion of their savings into guaranteed income to address longevity risk has remained constant since 2008 — around 30 percent — with only 5 percent being *very* interested in 2011.

***Household finances may have stabilized*** **—** retirees have become more conscientious of their household spending and many feel as confident about living comfortably in retirement as they did in early 2008.

- Retiree levels of confidence in having enough money to live comfortably in retirement dipped between the 2008 and 2009 studies, but are nearly back to the 2008 levels (88 percent in 2008, 79 percent in 2009, and 85 percent in 2011).
- Retirees continue to control spending at proportions more similar to those in 2009 than in 2008.
- Retirees have reduced their household debt since early 2008.

# Fewer Retirees Still Feel Less Financially Secure

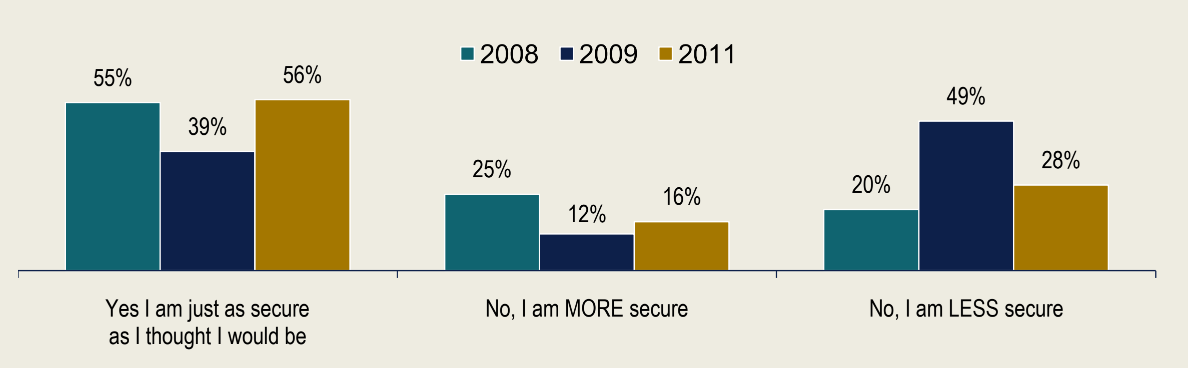
***— Are you as financially secure now as you thought you would be when you first retired? —***

Retirees' feelings of financial security in 2011 are similar to their feelings in the spring of 2008. The majority (56 percent) believe they are just as secure as they thought they would be when they first retired (Figure 1).

In fact, a larger proportion of American retirees feels better about their financial security today than two years ago, when nearly half were feeling *less* secure than when they first retired. The percentage of retirees who are feeling less secure has decreased from 49 percent in 2009 to 28 percent in 2011. This current proportion is approaching the rate seen in 2008 (20 percent).

Today, the portion of retirees feeling *more* financially secure than when they first retired is slightly higher than that seen in 2009 (16 percent versus 12 percent) — but does not come close to the 2008 proportion of 25 percent.

**Figure 1 —**
**Now as Financially Secure as Thought When First Retired**
***Three-Year Trend***



# Retiree Confidence in Saving Enough Is Back

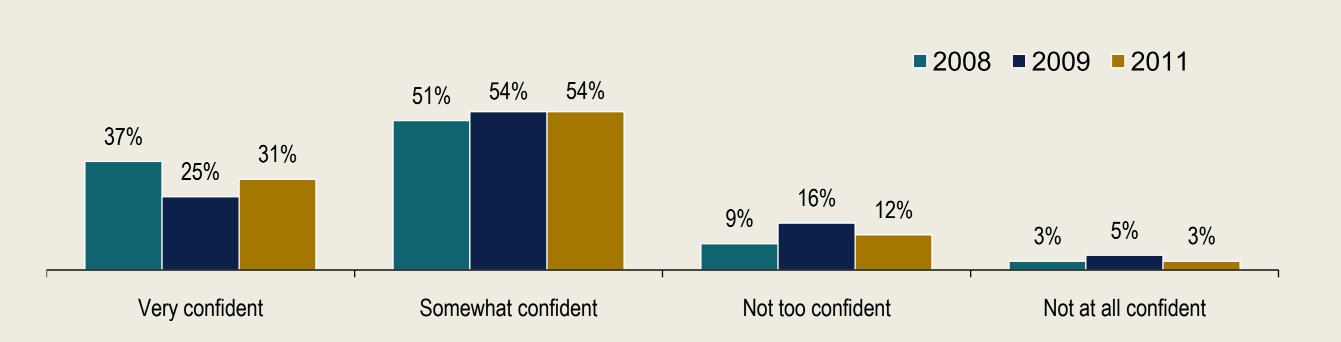
***— How confident are you that you saved enough money to live comfortably throughout your retirement years? —***

With the stock market having improved since 2009, retirees are approaching the levels of confidence they had in 2008 when it comes to having saved enough money to live comfortably during their retirement years. In 2008, 88 percent of retirees were *very* or *somewhat* confident that they had enough savings for retirement; currently that proportion is 85 percent (Figure 2).

In 2009, 25 percent of retirees were *very* confident that they had saved enough for a comfortable retirement; now this proportion is 31 percent, whereas it was at 37 percent before the 2008 financial crisis. The proportion that is *somewhat* confident they have saved enough has not changed over the past two years, and remains at 54 percent.

The proportion of retirees who lack confidence in having saved enough money for a comfortable retirement is approaching the levels seen in 2008 — currently 12 percent are *not too* confident, while 3 percent are *not at all* confident.

**Figure 2 —**
**Level of Confidence in Having Saved Enough Money to Live Comfortably Throughout Retirement**
***Three-Year Trend***



# Retirees Still Less Willing to Take Risk

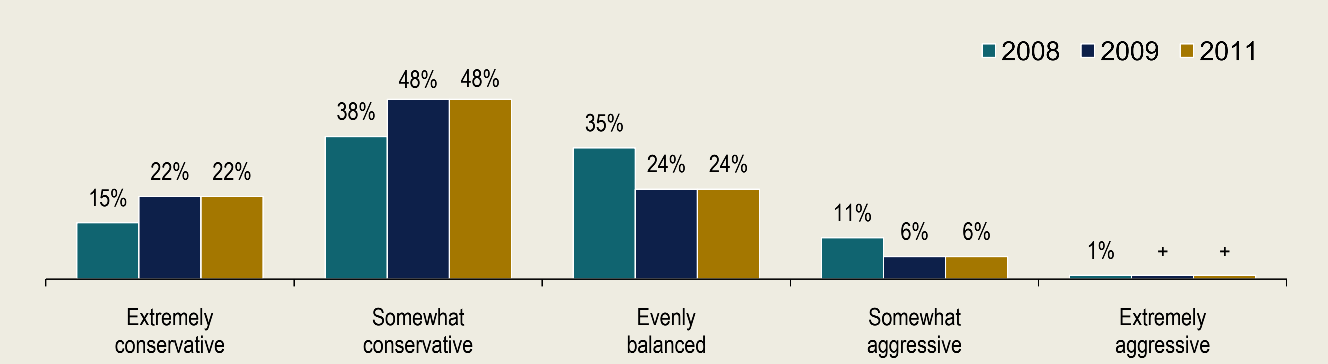
***— How would you describe your risk tolerance level for managing your household's investable assets? —***

Over the past two years, retiree risk tolerance has not changed. In 2011, the same proportion of retirees describe themselves as *extremely* conservative (22 percent) or *somewhat* conservative (48 percent) as in 2009 (Figure 3). Nearly 1 in 4 retirees still describe their risk tolerance as *evenly balanced*. And, as might be expected, few retirees are *aggressive* when it comes to managing their household's investable assets.

In 2009, more than 4 in 10 retirees (43 percent) had changed their risk tolerance in the previous 12 months. By 2011 that proportion decreased by almost half — 26 percent of retirees currently report their risk tolerance has changed in the last 12 months. The top reasons these retirees give for changing their risk tolerance have remained the same, although proportions have changed:

| | 2009 | 2011 |
|---|---|---|
| Concern about the economy | 79% | 72% |
| Concern about future inflation | 45 | 47 |
| Not enough time to recover from downturn | 39 | 20 |
| Value of house changed | 28 | 32 |

**Figure 3 —**
**Level of Risk Tolerance for Managing Household Investable Assets**
***Three-Year Trend***



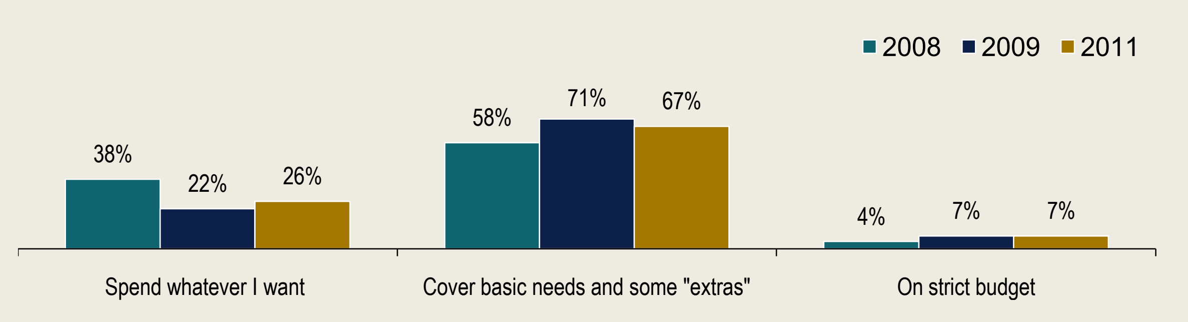

+ Less than ½ of 1 percent.

# Controlled Spending Still the Norm Among Retirees

***— How are you currently spending your money [in retirement]? —***

While retiree spending habits changed significantly between 2008 and 2009, they have not changed much over the past two years (Figure 4). A slightly larger proportion of retirees in 2011 spends their money on whatever they wish than did in 2009 (26 percent vs. 22 percent). This change is offset by the four percentage-point decrease in retirees whose money is covering basic needs and some "extras" (71 percent to 67 percent). The proportion of retirees who are on a strict budget remained at 7 percent for the last two years.

**Figure 4 —**
**How Retirees Are Spending Their Money**
***Three-Year Trend***




## Debt

During the past two years retirees may have become acclimated to their decreased spending; and now, with the stock market recovery (as of June 2011), they may feel a little freer to spend their money. Yet, from 2008 to 2011, retirees who remained in the study have reduced debt (Table 1). The proportion of retirees without any debt increased 12 percentage points, going from 34 percent in 2008 to 46 percent in 2011.

**Table 1 —**
**Level of Household Debt**
***Three-Year Trend***

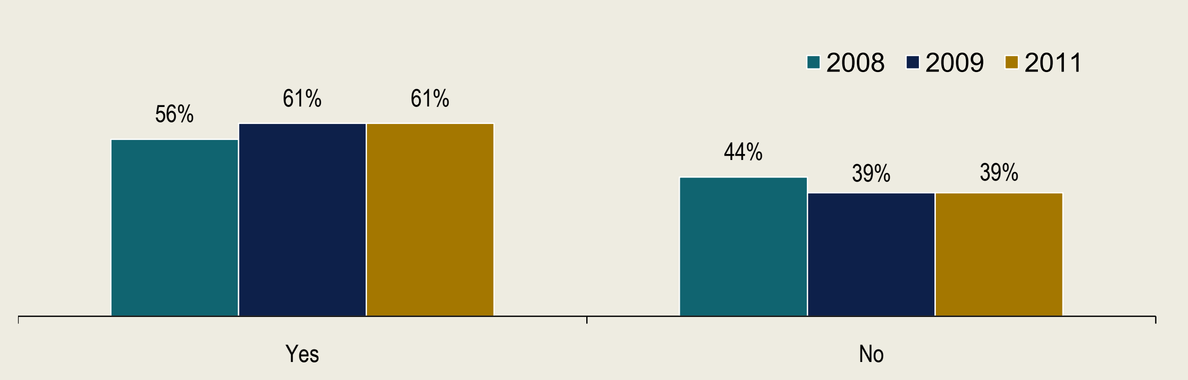
| | 2008 | 2009 | 2011 |
|---|---|---|---|
| None | 34% | 38% | 46% |
| Less than $5,000 | 17 | 13 | 11 |
| $5,000 to $49,999 | 23 | 20 | 21 |
| $50,000 to $99,999 | 11 | 12 | 11 |
| $100,000 to $249,999 | 10 | 13 | 9 |
| $250,000 or more | 5 | 4 | 2 |

# No Change in Having Personal Financial Advisor

***— Do you currently have someone you consider to be your personal financial advisor? —***

The dependence on financial advisors shown in 2009 continues, as the portion of retirees with a personal financial advisor remains at 61 percent (Figure 5). This proportion may grow as opportunities continue for advisors to assist retirees in retaining and growing their assets. And if there is another financial crisis, retirees without financial advisors may seek one out to help with their assets and investments. Often it takes a downturn in the market to prod people to request professional help.

**Figure 5 —**
**Retirees With Personal Financial Advisors**
***Three-Year Trend***



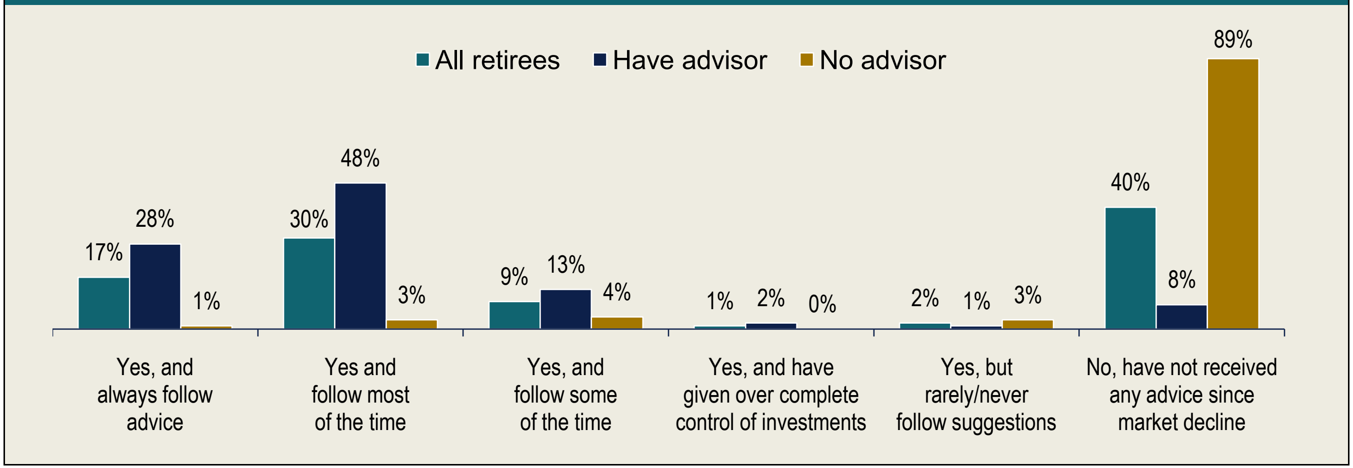
# Professional Advice Sought Since Market Decline

***— Between the beginning of the 2008/2009 market decline and today, have you received any advice from a professional financial advisor regarding your investments? —***

Since the market decline of 2008/2009, the majority of retirees in the 2011 study have received some level of advice from a professional financial advisor (Figure 6). Many say they follow that advice *most* of the time (30 percent) while a good portion say they *always* follow the advice from their advisor (17 percent). This bodes well for financial advisors and focuses on the trust clients place in their hands, especially during financially traumatic times.

Well-qualified professional advisors can play a pivotal role in retirees' financial security. The vast majority of retirees who have personal financial advisors did contact their advisors during this time of financial unrest, and most followed their advisors' advice. A small portion of retirees without personal advisors (11 percent) received a professional's help after the market downturn.

**Figure 6 —**
**Received Advice From Professional Financial Advisor Since 2008/2009 Market Decline**
***by Have Personal Advisor***



# Retiree Actions With Investment Portfolios

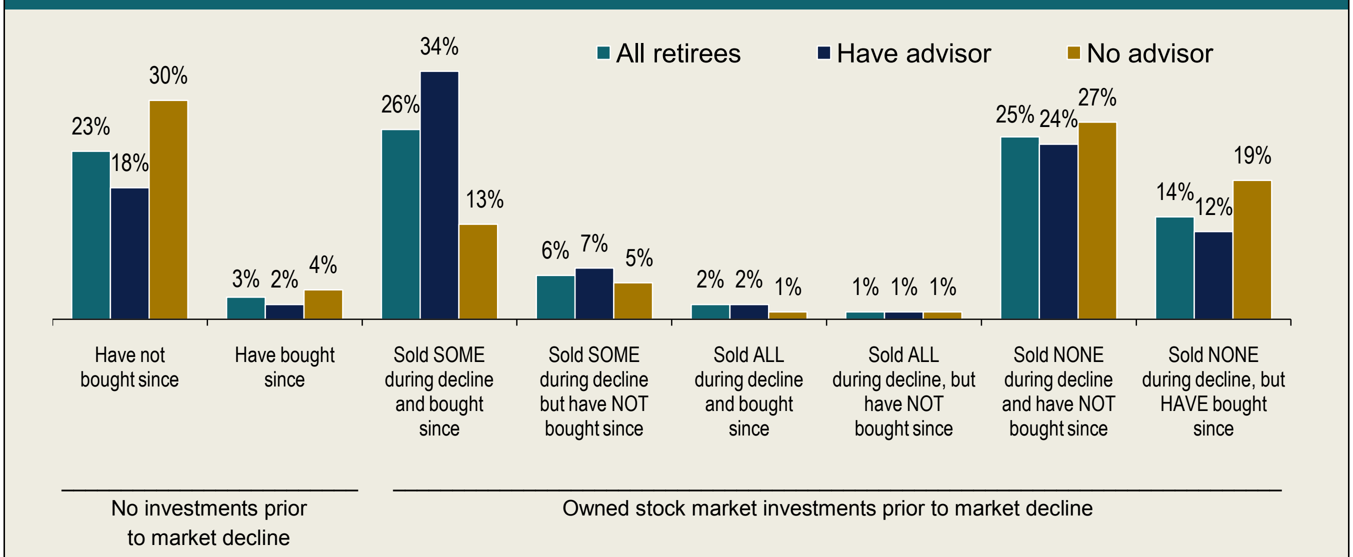
***— Which of the following best describes what you have done with your investment portfolio since the beginning of the market decline of the 2008/2009? —***

Prior to the market decline of 2008/2009, 1 in 4 retirees in the 2011 study did not have stock market investments (Figure 7). Among these retirees, the majority have not bought any stocks since the decline.

Most of the retirees experienced the financial decline as a stock owner. Reaction to the market decline differed among retired stock market investors. Similar proportions of retirees took opposite-end actions — the majority either did not sell any stocks during the decline nor have bought any since; or, they sold some of their stock investments during the decline and have also bought some since.

Those retirees with personal financial advisors acted differently than those without advisors during this period of time. Since 2008, nearly 6 in 10 retirees with advisors (58 percent) have repositioned their equity investments compared with 43 percent of retirees without advisors. Among those retirees owning equities prior to the downturn, about one third made no change in their equity position.

**Figure 7 —**
**Retiree Actions with Investment Portfolio Since 2008/2009 Market Decline**
***by Have Personal Advisor***



# Conclusions

***Retirees who participated in all three studies have reacted to the financial crisis and continued instability by:***

- Bouncing back from feelings of less confidence
- Becoming more conservative with debt, risk taking, and spending; and
- Continuing to use financial advisors at about the same level as in 2009 — a modest increase over 2008.

Going forward, it will be interesting to see if there is any long-term impact from the economic turmoil and apparently growing volatility of the last few years. This study focuses on a relatively affluent group of retirees, who had at least $100,000 of investable assets in 2008, and many of whom have pensions that, together with Social Security, cover their basic expenses. These retirees do not seem to have made any major changes to their investment strategies; yet they have become more risk-averse and conservative spenders, and have paid down debt. Their preference for limiting risk has not resulted in more interest in annuitization, but that could change in the future.

One of the big issues that impacts retirees and near retirees, which was not a topic of this study, is the change in housing values, the increase in foreclosures, and longer-term decline in values. For retirees who do not plan to move and do not have debt, this is not an issue. Yet for many retirees who had or have plans to sell their homes, it is a huge issue. Research shows that many Americans are relying on their home equity to play a role in financing a portion of their retirement. The financial events of the last few years may encourage future generations of retirees to rethink this strategy.

# About the Study

Readers are encouraged to view the complete results of all three studies.

More detailed information on the 2011 results, as well as the 2008 report *Will Retirement Assets Last a Lifetime?,* and the 2009 report *What A Difference A Year Makes* can be found at:

- International Foundation for Retirement Education (InFRE) — www.infre.org
- LIMRA — www.limra.com
- Society of Actuaries (SOA) — www.soa.org

**CONTACT INFORMATION** This report was jointly sponsored by the International Foundation for Retirement Education (InFRE), the Society of Actuaries (SOA), and LIMRA. Questions or comments may be addressed to:

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