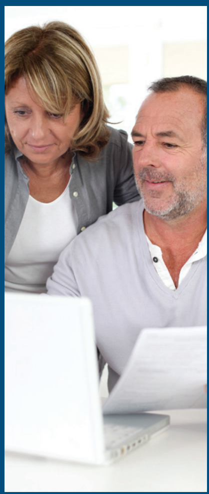


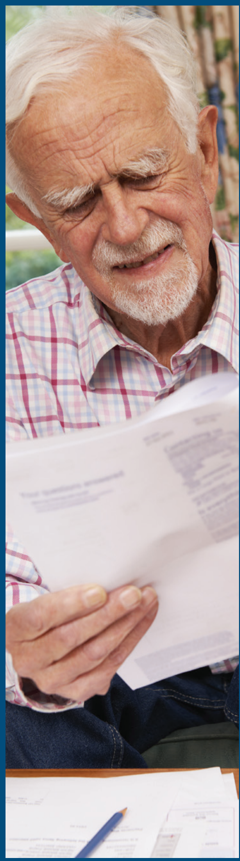

Retirement Survey Report
Key Findings and Issues:

Spending Patterns and Debt

SOCIETY OF ACTUARIES

ACKNOWLEDGMENTS

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TO OBTAIN A COPY OF THE COMPLETE SURVEY REPORT

The 2015 Risks and Process of Retirement Survey report may be obtained from the website of the Society of Actuaries at ***www.soa.org.***

Spending Patterns and Debt

Introduction and Background

Spending and debt management are new areas of emphasis for the Society of Actuaries (SOA) surveys and focus groups on post-retirement risks. It has become increasingly clear that managing spending is a major focus of retirement risk management, and the project team wanted to learn more about that aspect of retiree behavior. In addition, societal concerns about debt at all ages have been growing, and awareness of the implications of debt for retirement security has increased.

For these reasons, the SOA examined spending decisions and the impact of debt as part of its 2015 Risks and Process of Retirement Survey and associated research. This Special Topic Report takes a look at the findings.

That spending and debt management are emerging concerns for older Americans may come as no surprise to some readers. It is well known that people are living longer and living more years in retirement than did previous generations, and so they are facing economic challenges that the earlier generations did not have, including challenges in spending and debt management. In addition, health care costs are growing more rapidly than the rest of the economy. The two major recessions of the 21st century contributed to those challenges, as many older people found themselves living on ever-tighter budgets during stressed economic times. And the decline in defined benefit plans plus baby boomers entering retirement ages has increased attention to these issues. With the shift to defined contribution plans and more personal responsibility, the overall saving for retirement is less for many people, leaving them with resources in retirement that do not permit them to continue their pre-retirement living standards.

The developing situation with regard to retirement resources means that many older Americans will be faced with difficult spending and debt management challenges. Policymakers may be called in to reexamine social programs at the same time. The actuarial profession in particular will be called on to revisit strategies and help systems adapt, as will other specialties that focus on the lives and issues of American pre-retirees and retirees.

The SOA's 2015 research helps illuminate possible areas for inquiry, as will be seen below. First, a brief look at the research.

The SOA's Research on Spending and Debt Management

This Special Topic Report on spending and debt management draws from findings in the SOA's 2015 Risks and Process of Retirement Survey, as well as from 12 focus groups and 15 in-depth interviews, also conducted in 2015. (See the SOA website, *https://www.soa.org/Research/Research-Projects/Pension/2015-risk-process-retirement-survey.aspx*, for additional Special Topic Reports that draw from this research. The other reports cover retirement risks, shocks and unexpected expenses in retirement, and longevity.)

The research projects include the following:

- The SOA's *2015 Risks and Process of Retirement Survey* examines public perceptions related to post-retirement risks and how they are managed. Conducted on the SOA's behalf by Mathew Greenwald and Associates, it is the SOA's eighth biennial study on this topic. The survey provides quantitative data on the views of more than 2,000 older Americans, ages 45 to 80, with pre- and post-retirees split nearly 50/50, as well as nearly 200 widows. The predominant focus is on experiences of middle-income Americans. As with the earlier surveys, the researchers in the 2015 survey introduced some new questions and discontinued some older questions due to evolving trends.
- *The 2015 focus groups* examined how well long-term retirees have coped financially in retirement and how unexpected expenses have impacted their retirement security. The groups were conducted in three cities in the United States and two cities in Canada. In each case, the participants had been retired for 15 years or more. It is noteworthy that spending was a major topic for these focus groups, with the research team expressing interest in learning whether the experiences of longer-term retirees were different from those more recent retirees.
- *The 2015 in-depth interviews* explored long-term care issues with current and former caregivers of long-term retirees in the United States and Canada. The interview subjects were caregivers of a parent or spouse who needed long-term care in old age.

For more detail on these research projects, please see the section at the end of this report, titled **Profile of the SOA Studies.**

This Special Topic Report also draws from other research into the finances of Americans. This includes "*How Americans Manage Their Finances*," a study that resulted from the SOA's partnership with the Social Security Administration and the Center for Economic and Social Research at the University of Southern California. Published in 2015, this research explores a wide variety of financial behaviors and decisions, including spending and debt for Americans at all adult ages, 18 and up. It was conducted using the Understanding America Study panel.

This Special Topic Report incorporates findings from other studies as well.

The above studies cover a wide range of topics, but this Special Topic Report focuses specifically on their findings about spending and debt management in retirement. It includes responses to selected questions from the 2015 survey, a brief summary of the results, amplification with quotations from the focus groups and interviews, and commentary from some of the SOA's Project Oversight Group members as well as representatives of organizations that supported the studies and material from other related research.

Top Observations on Retirement Spending and Debt

Adjusting spending is a major component of the way that many retirees manage their finances. But although adjusting spending is an effective way to deal with many situations, it does not provide retirees with a good solution for shocks and increases in need, such as the need for major long-term care.

Not surprisingly, we noticed that strategies related to spending tended to vary by income level. The challenge in adjusting spending also varied by income level, with people in the lower income categories having a much more difficult time with adjusting their spending.

The focus groups were structured to focus on this topic because of the importance of spending and the desire to learn about how people think about and make decisions with regard to spending. Participants in those groups were generally very aware of their spending decisions, and some were proud of their frugality. Participants also seemed very aware of their regular bills.

However, focus group participants gave less attention to planning for irregular expenses such as home repairs and larger dental bills, and they were not likely to focus on these events until they happened. This may help explain why the participants were very mixed when discussing how much of their emergency fund they could spend without encountering a major problem. They also differed when asked how they would handle unexpected expenses.

Thought for Consideration: This suggests that retirement experts and professionals will need to do more work on increasing public awareness of the importance of (1) having emergency funds and (2) increasing the size of their emergency funds.

A *Government Accountability Office (GAO) report on retirement security* and several Employee Benefit Research Institute (EBRI) reports provide some relevant insight. Household expenses are generally lower for older retirees, and household size (the average number of persons in a household) also declines with increasing age according to the GAO report. Published in March 2016, the GAO report is an analysis of 2013 data from the *Consumer Expenditures Study* that U.S. Bureau of Labor Statistics (BLS) published in early 2015. The EBRI publishes analyses of Health and Retirement Study (HRS) data.

The GAO looked at a snapshot of household spending and expenses for early, middle and later in life retirees. Data from the GAO report and EBRI studies are shown at the end of this report.

The changes in spending reflect the changing lives of retirees, as well as the impact of inflation. In general, because activities and abilities change over time, some people experience much more change in expenses than others. Overall, travel declines over time, and the likelihood of working during retirement declines. People are more likely to need care at later ages. They are much more likely to move to specialized senior housing, and particularly assisted living, later in retirement.

After age 65, some types of expenses are significantly different by age group than other expenses, and health care expenses do not show the same pattern of decrease that most expenses do. Long-term care, an important and often uninsured component of health care costs, and utilization rise with age and are much more prevalent at the very high ages. Health care utilization among seniors is significantly greater than at earlier ages. Out-of-pocket expenses among seniors for acute health care are very influenced by Medicare and the insurance coverage used at different ages.

Meanwhile, housing, transportation and food expenses are significantly lower for the higher age households, the GAO reported. These household-level expenses decline at time of retirement and seem to continue to decline.

Some of the above may be common knowledge, since people are generally aware that spending patterns do change over time and with changes in one's life situations. However, in the matter of debt in retirement, widespread awareness has generally been much more limited. Retiree debt can include mortgage loans, student loans, credit card debt, auto financing, pay-day loans and other things.

Thought for Consideration: More work is needed to understand how serious a problem this is. This was an area of focus for the Risk Survey and for the "How Americans Manage Their Finances" study.

These observations suggest there are opportunities to improve planning for spending and to reduce spending through consumption choices.

Opportunities to improve planning for spending may recognize that people often plan for cash flow on a short- to middle-term basis. However, according to focus groups findings, people are more likely to be aware of regular periodic expenses rather than expenses that occur at irregular intervals such as home repairs and dental care. The surveys and focus groups also indicated that some people do not plan, and of those who do, some do not plan for the long term.

In view of that, some areas that actuaries and financial professionals may want to consider working on, with regard to planning, include the following:

- Providing reasonable avenues for people to seek financial planning advice
- Encouraging more people to build a plan
- Encouraging people to reduce or eliminate debt prior to retirement
- Encouraging people to include more "unexpected expenses" in their plan
- Increasing the period covered by the plan.

Some examples of the way that retirees may try to manage expenses are:

- Seeking out sales and using coupons
- Limiting purchases and using thrift shops and garage sales as a first point of contact for purchases
- Looking for economical travel and adjusting travel times to times when there are specials
- Seeking out activities that are no-cost or low-cost, such as events at senior centers and volunteer-run activities in local communities
- Down-sizing housing, moving to lower cost areas or sharing housing with others.

Employers generally do not get involved with employee debt, but we have found that employers with financial wellness programs are likely to offer information and help in managing debt. In addition, some employers offer credit unions as a way to help employees borrow easily on a favorable basis.

1 Planning for Income and Spending

FINDINGS ON RETIREMENT INCOME AND SPENDING

A majority of retirees do have a plan for income and spending in retirement. Six in 10 told SOA researchers that they have a plan for how much money they will spend each year in retirement and from where that money will come.

In contrast, only four in 10 pre-retirees indicated they have an income and spending plan for retirement. As the following two tables indicate, the percentage having a plan varies greatly by income and for the pre-retirees by age.

DISCUSSION

In earlier SOA focus groups with retirees—including back in 2005—cash flow planning emerged as the most common type of plan that retirees discussed, just as it did in focus groups in 2013 and 2015. The risk survey shows that the prevalence of such plans increases with increasing income and more choices to make. This is encouraging, since an income and cash flow plan basically estimates income and expenses for a specified period.

However, the 2015 focus groups revealed that there are gaps in such plans and there is work that needs to be done to fill those gaps. For instance, the retirees were asked about what expenses were unexpected and created challenges. The answers given revealed that nonrecurring expenses that occur at unpredictable times, such as home repairs and dental bills, often were not included in the planned-for expenses.

Also, the plans the retirees have established often appear to be relatively short term.

As noted earlier, actuaries and other financial services professionals can help nudge more people to do more focused planning with behaviors such as building a plan, including more “unexpected expenses” in the plan, and increasing the period covered by the plan.

Income and Spending Plan: Pre-Retirees			
Pre-Retirees: All	Annual Income for Household	Percentage Having a Plan	Percentage Not Having a Plan
	< $50,000	24%	76%
	$50,000–99,999	36	64
	> $100,000	53	47
Pre-Retirees: Subgroups			
Ages 45–49		25	75
Ages 50–54		34	66
Ages 55 and up		50	50

Source: The SOA 2015 Risks and Process of Retirement Survey.

Income and Spending Plan: Retirees			
Retirees: All	Annual Income for Household	Have a Plan	Do Not Have a Plan
	< $35,000	45%	55%
	$35,000–74,999	68	32
	> $75,000	75	25
Retirees: Subgroups			
Ages 45–49		52	48
Ages 50–54		63	37
Ages 55 and up		61	39

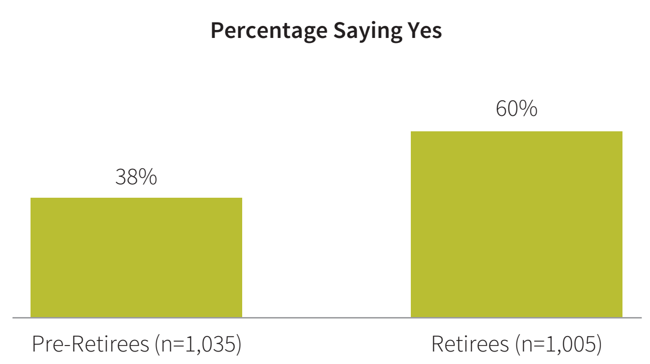
Source: The SOA 2015 Risks and Process of Retirement Survey.

FOCUS GROUP QUOTES

- ***"Making this spreadsheet, things are working out a lot easier and better."*** —Male, Baltimore, MD
- ***"We have a double budget. We have the house payment, utilities and everything else is taken care of by my retirement checks."*** —Male, Dallas, TX
- ***"I've got this money in investments. I calculated out 12 months in advance based on what I had. I would up my utilities in certain months and lower in other months. I knew how much right then what I had coming in and what I could count on, and assuming that nothing would change, I would know here is my outgoing, here is my incoming, here is what I have left for fun money."*** —Female, Dallas, TX
- ***"It's not a structured thing, but you have an idea. You know what you got to spend and you put your money in those places and you work towards that goal. And if you don't use it, then you got to build something else that you can use."*** —Female, Baltimore, MD

THE SURVEY QUESTION:

Do you currently have a plan for how much money you will spend each year in retirement and where that money will come from?



2 Pre-Retirees' Expected Cost of Retirement

SURVEY FINDINGS ON PRE-RETIREES' EXPECTED COSTS

Many pre-retirees expect retirement to be less expensive than pre-retirement. Pre-retirees were more than twice as likely to say they think their expenses in early retirement will be below pre-retirement levels as they are to think their expenses will be higher (43% vs. 17%). More than one-third said they think their expenses will stay about the same.

DISCUSSION

Personal choices, financial shocks and unexpected expenses will lead to differences in expenses before, after and throughout retirement.

Some of the bigger choices that influence increases and decreases in expenses include travel, downsizing housing or moving to a less expensive area, adding a second home, remodeling housing and expenses on hobbies. Day-by-day choices, such as eating out and going to the theater and movies, also influence expenses.

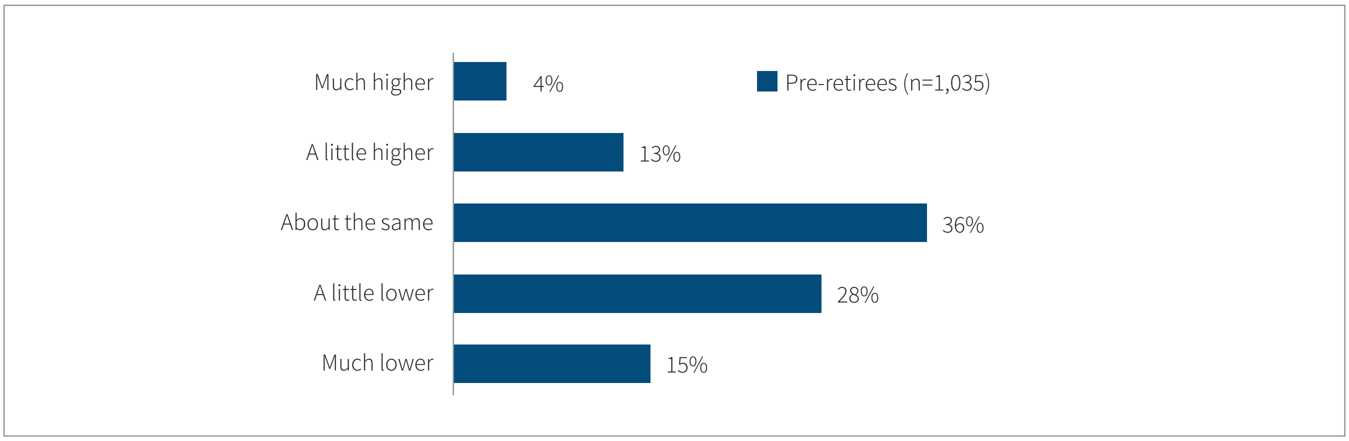
It appears that most people are planning for lower expenses. Retirees in the focus groups indicated that they value frugality. There are no parallel focus group results with pre-retirees.

FOCUS GROUP QUOTES

- ***"I was confident that I had enough. The money that I had saved and Social Security and all of it, we felt like we stayed where we were."*** —Male, Dallas, TX
- ***"I would say lower, especially for traveling. If you retire you can go the cheap way."*** —Male, Kitchener, ON
- ***"I knew how much money I could spend on everything and tried to pay as you go and not get credit cards, credit card bills."*** —Female, Dallas, TX

THE SURVEY QUESTION:

Compared with your expenses in the five years before you retire, do you expect your expenses in the first five years of your retirement will be higher, about the same or lower? (if pre-retiree)



3 Retirees' Expected Cost of Retirement

SURVEY FINDINGS ON RETIREES' EXPECTED COSTS

The surprise for many retirees is that their retirement expenses are often higher than what they expected when they first retired.

In fact, nearly two-fifths of the retirees (38%) said they had found their expenses in retirement to be higher than expected. Retired widows were especially likely to report this situation (44%). Only a few—12% each of retirees and retired widows—said their expenses were lower than they anticipated.

DISCUSSION

As indicated above, choices are important. Unexpected expenses and shocks are also a big factor in spending—and sometimes debt—decisions.

Lack of discipline is a potentially big factor, but it appears that shocks and unexpected expenses are the real story here. A review of the data indicates that expenses were much more likely to be higher than planned for those who had experienced multiple shocks. As the table below demonstrates, the percentage of surveyed retirees who experienced expenses higher than planned increased with number of shocks experienced.

The Impact of Multiple Shock Events in Retirement

Number of Shocks Experienced in Retirement	Percentage Reporting Much Higher Expenses than Planned	Percentage Reporting Somewhat Higher Expenses than Planned
No shocks	4%	21%
One or two shock events	6	32
Three or more shock events	16	34

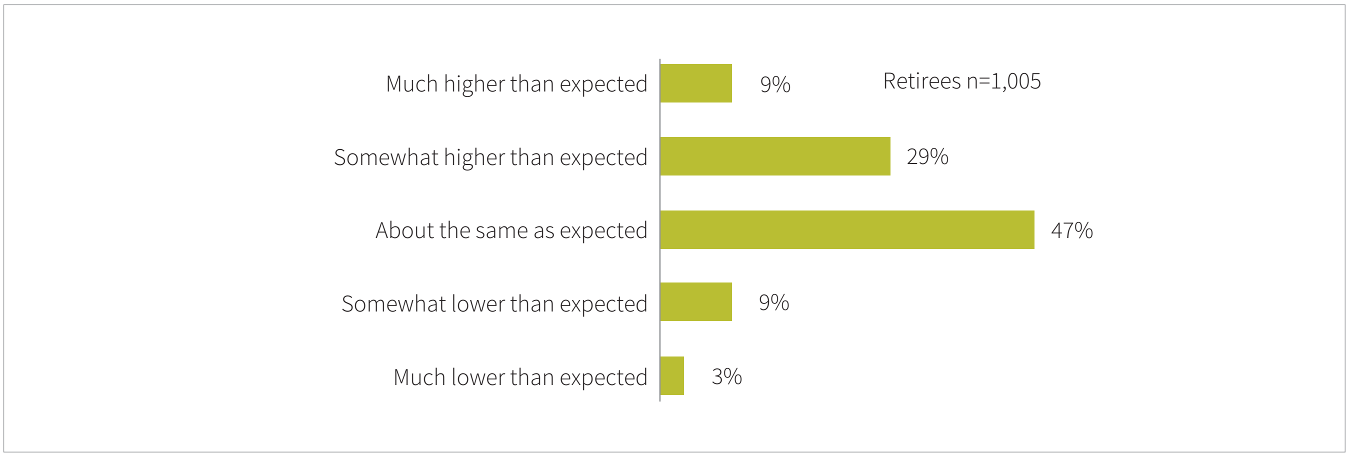
Source: The SOA 2015 Risks and Process of Retirement Survey.

FOCUS GROUP QUOTES

- ***"Even though my house is paid off, when you take into account condo fees and taxes, it's about $600 a month, which isn't a lot compared to some things. But it begins adding up."*** —Male, Baltimore, MD
- ***"The taxes got to be like $10,000, and I felt like if I'm going to stay in this, I will get house poor. So I scaled down, which I really needed to do."*** —Female, Chicago, IL
- ***"We probably spend a little more eating out, but of course I am working part time, so I am making a little extra money too. We do probably spend a little more eating out with friends and so on and so forth."*** —Male, Kitchener, ON

THE SURVEY QUESTION:

Compared with what you expected when you first retired, would you say your expenses in retirement at this point in time are higher than expected, about the same as expected or lower than expected? (if retiree)



4 Spending Often Decreases in Retirement

SURVEY FINDINGS ON SPENDING DECREASES

Placing notions of high living aside, the reality is that retirees often decrease their spending—at least, their voluntary spending—during their retirement years rather than increase it.

In our survey, half of retirees (49%) reported decreasing their spending in retirement, including 20% who reported decreasing their spending by a lot. Just two in 10 (18%) said their level of spending increased since they first retired.

DISCUSSION

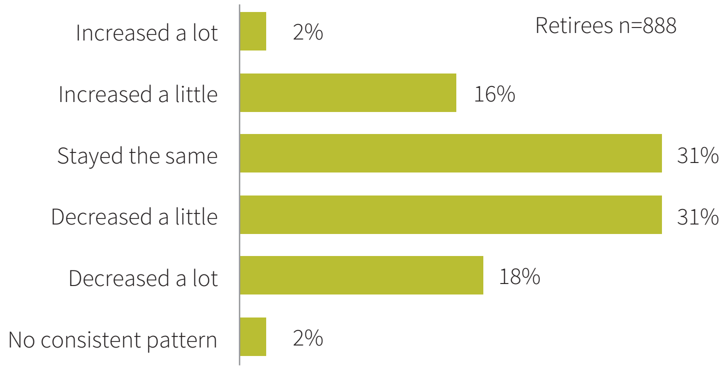
The focus group participants' discussion made clear how important managing spending was to retirees, and some of the retirees seemed to feel proud that they were doing this. The discussion pointed to a great deal of focus on managing and reducing spending. Based on their comments, there appear not to be that many people who are spending carelessly in retirement.

The often-heard major concern that people who get access to significant funds in retirement will want to spend too much too fast was not supported by the SOA's 2015 research on retirees.

FOCUS GROUP QUOTES

- ***"When I was working and making a considerable amount of money every year, I didn't shop. If I needed something, I would go buy it. I never thought about shopping. I will tell you something, my wife and I have made shopping and coupon clipping, of course using the Internet, a hobby."*** —Male, Baltimore, MD
- ***"Now today, I am basically on a fixed income, from investments to Social Security to my pension. Well, when you are the average housewife, I'm speaking for myself and a lot of my neighbors, you can have a couple pair of jeans and t-shirts and you get along just fine. You don't have to go out and spend a lot of money."*** —Female, Chicago, IL
- ***"But I watch what I buy and a lot of things I don't even buy anymore because it's too expensive. When I go to the grocery store, [I think] 'I don't really need that.' Whereas back in the good old days, you bought what you wanted. It didn't seem to be that expensive."*** —Female, Edmonton, AB

THE SURVEY QUESTION:
How has your level of spending changed since you first retired? (if retired 2+ years)



5 They Keep Spending in Line with Affordability

SURVEY FINDINGS ON SPENDING AND AFFORDABILITY

Most retirees keep their spending level to about what they can afford.

The majority of retirees indicated that they generally find that, at the end of the year, they have spent about what they can afford. Nearly 20% said they generally spend less than they can afford, while 10% admitted to spending more than they can afford.

As illustrated in the following table, retirees who have experienced multiple shocks are more likely to report that they are spending more than they can afford.

Spending Levels of Retirees by Number of Shocks	
Number of Shock Events Experienced in Retirement	Percentage Reporting Spending Level Exceeds Affordable Range
0	5%
1–2	8
3+	21

Source: The SOA 2015 Risks and Process of Retirement Survey.

By age, it was the retirees ages 45–59 who were most likely to report they were spending more than they can afford. Of this group, 23% said they were spending more than they can afford, compared to 10% at ages 60–69 and 9% at ages 70–80.

DISCUSSION

Shock events as well as choices are interwoven with spending decisions. Shocks and unexpected expenses seem to be a substantial contributor to spending more than one can afford, and some of the group experiencing these events had to make major cuts in expenses.

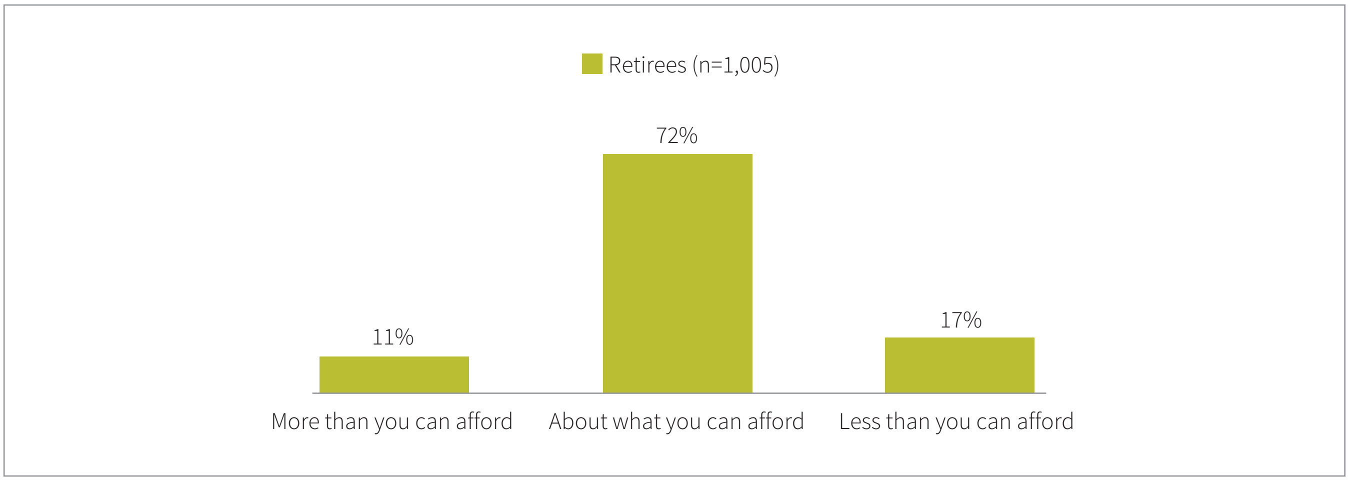
Excessive spending seems to be a relatively infrequent occurrence. However, one focus group participant talked about her husband gambling and noted that this is what led to their divorce.

FOCUS GROUP QUOTES

- ***"We don't have a lot of money, but we never needed it. We never lived above our needs I guess. I take a couple of trips every year and my wife goes up and visits her brothers. We do basically what we want. We are happy."*** —Male, Dallas, TX
- ***"We buy what we want, but if there is not enough money there, I am going to watch what I got there. I don't want to spend, so I am basically the same, because I haven't changed in my thinking of how I buy and what I don't buy and how I spend and how I don't spend and govern accordingly."*** —Male, Kitchener, ON
- ***"I've always kept a record of my expenses and income and tried to live within my income. And what's left over, if there is anything left over, then you put it aside for whatever, vacation or whatever."*** —Female, Dallas, TX

THE SURVEY QUESTION:

At the end of the year, do you generally find (and your spouse/partner) have spent more than you can afford, about what you can afford, or less than you can afford? (if retiree)



6 A Conscious Effort to Cut Back on Spending

SURVEY FINDINGS ON CUTTING BACK

Retirees who decrease their spending said they often make a conscious effort to do so. More than 80% of the retirees who said they had decreased their spending since they first retired have made a conscious effort to do so.

DISCUSSION

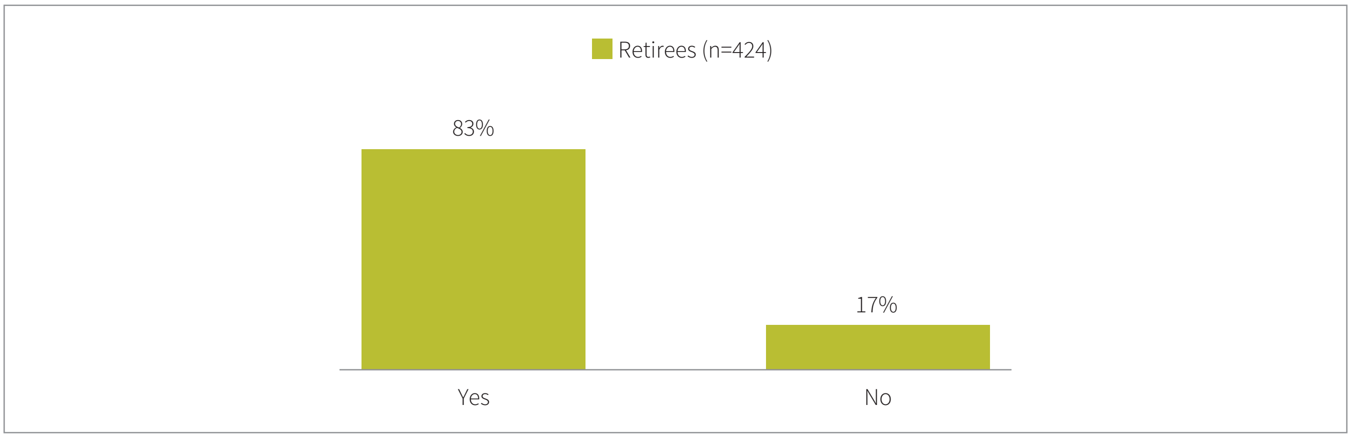
Discipline around spending seems to be a major focus for retirees. As noted in the GAO report cited earlier, household expenditures by older Americans is lower for higher aged persons than those who are a little younger. However, household size also declines.

FOCUS GROUP QUOTES

- ***"When we retired, we spent/wanted. Now I am spending a greater percentage on needing and not as high a percentage on wanting."*** —Female, Chicago, IL
- ***"My spending has gone down terrifically, because I don't go on vacation very ... well, I haven't been on vacation now for a couple of years. I'm older. I don't know, I just don't need stuff anymore."*** —Female, Chicago, IL

THE SURVEY QUESTION:

Did you make a conscious effort to decrease your spending since you first retired? (if retiree and spending decreased)



7 Trying to Spend Less on Purchases

SURVEY FINDINGS ON TRYING TO SPEND LESS

To decrease their spending, retirees most often try to spend less on purchases. Nearly all (90%) said they reduce such spending. Eating out less often, spending less on travel, and reducing gifts or charitable giving are also popular options for nearly half or more of the retirees.

DISCUSSION

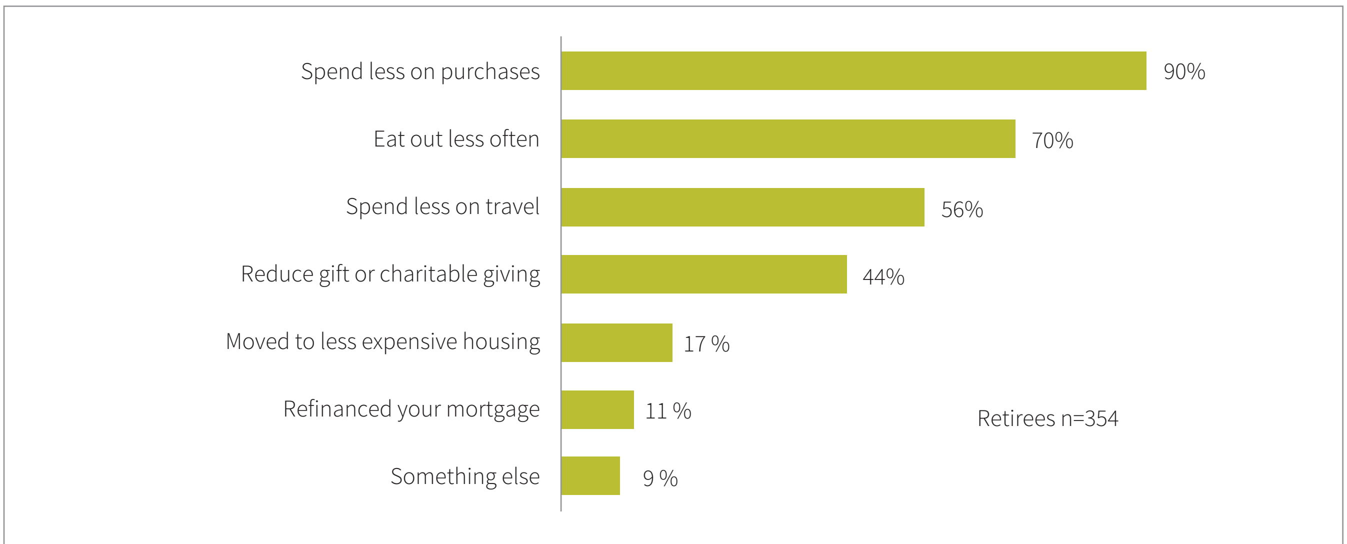
Retirees find options to reduce spending by paying attention. Many find that they have enough "stuff," and they try to downsize and reduce the amount of their possessions. They also have flexibility with regard to travel timing; this means they can look for better prices and less crowded times to travel. Even though housing is a major expense, a much smaller percentage of retirees (17%) reported moving to less expensive housing to reduce expenses.

FOCUS GROUP QUOTES

- ***"Regroup. Look at your finances and regroup to see what you can cut out, see what you don't really have to have."*** —Female, Baltimore, MD
- ***"I always pretty much kept track where everything was and I took a part-time job and I was only working 20 hours a week, but I just knew I had to make enough. I knew how much money I could spend on everything and tried to pay as you go and not get credit cards, credit card bills."*** —Female, Dallas, TX
- ***"Do I really need that ice cream cone, that $2.50 cone? Is it really worth it or can I just go home and eat the gallon of ice cream I bought for $1.99? I think as you mature and get older you just don't need as much."*** —Male, Kitchener, ON

THE SURVEY QUESTION:

What actions did you take to decrease your spending? (Select all that apply.) (if retiree and made an effort to reduce spending)



8 Spending Reductions Not a Huge Hurdle

SURVEY FINDINGS ON ATTITUDES TOWARD SPENDING REDUCTIONS

Many retirees did not find spending reductions to be especially difficult. Although nearly 40% of those who made an effort to reduce spending found it at least somewhat difficult, half of the retirees said it was not too difficult, and 13% said it was not difficult at all.

So a significant majority—nearly two-thirds of retirees—did not find reduced spending to be a huge hurdle.

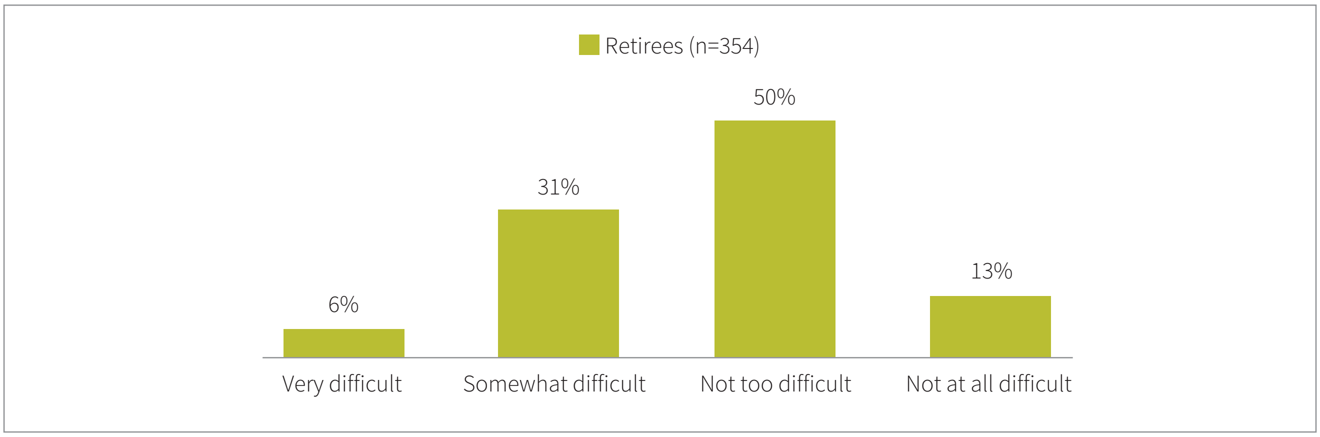
As with other areas of spending, there seemed to be a connection to shocks here. Take, for example, retirees who experienced three or more shocks. Of these individuals, 13% said it was "very difficult" to reduce spending (compared to 6% of the entire group), and 40% said it was "somewhat difficult" to reduce spending (compared to 31% of the entire group).

DISCUSSION

Retirees have very different experiences with respect to the ability to reduce spending, and, of course, they also vary a lot with regard to what they spend on and how much of their spending is discretionary. This issue is interwoven with shocks to some extent. It is also interwoven with personal awareness of spending and discipline, two areas for further consideration and exploration.

THE SURVEY QUESTION:

How difficult was it to reduce your spending? (if retiree and made an effort to reduce spending)



9 Views Differ about Spending Predictions

SURVEY FINDINGS ON SPENDING PREDICTIONS

Pre-retirees and retirees see the future differently when it comes to predicting how their spending will change as they age.

Nearly 60% of pre-retirees said they expect their spending to decrease as they age in retirement. In contrast, the plurality of retirees (40%) said their spending will stay the same as they age. Just over one-third of retirees said they expect their spending will decrease, while 20% predicted it will increase.

DISCUSSION

The predictions about expecting spending decreases may reflect some known financial factors. For instance, household sizes decrease over retirement and average household expenditures decrease and their composition changes. Activities also change during retirement. People are able to travel less, and they may lose their interest in travel after a time.

As for predictions of spending increases, these may reflect awareness that health and long-term care costs are likely to increase, and for those households with major long-term care spending, they can increase a great deal. For people who move into specialized housing, there can be an increase in housing costs, as well.

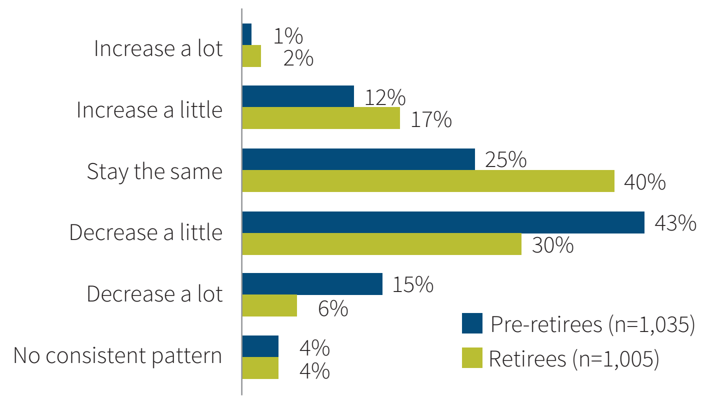
Typically, a single person household will have expenses of about 75% of a two-person household. The surveyed individuals may have taken this into account in their predictions as well.

FOCUS GROUP QUOTES

- *"My wife and I projected what our income and expenses would be in retirement and combined that with the situation we found ourselves in. We made the decision that we would be able to go into what you might call full retirement rather than saying, okay, I am going to go out and find another job kind of thing."* —Male, Edmonton, AB
- *"Well, I mean they had a house that was probably worth somewhere at the time … it was a small house. It was worth somewhere between $125,000 and $150,000. And they probably had about $250,000 in savings or something like that, but they had spent down quite a bit of assets, cash for my father's care. I would say [it's now] probably about $120,000."* —Male assisting mother in the United States
- *"I can no longer afford that house or a house, a mortgage, high payments, which a lot of people do and perhaps foolishly they get in too tight. But yeah, I wasn't prepared. I had planned on sacking more money away, doing better planning for my retirement, but it hit me, boom."* —Male, Kitchener, ON

THE SURVEY QUESTION:

As you age (in retirement), do you expect your spending to increase, stay the same or decrease?



10 Asset Preservation Goals Do Impact Spending

SURVEY FINDINGS ON ASSET PRESERVATION

The need to preserve assets caused half of retirees to limit their spending.

The large majority of pre-retirees (77%) said they think the need to preserve assets will cause them to limit their spending in retirement a great deal or somewhat. On the other hand, only about half of retirees indicated that this concern limits their spending.

DISCUSSION

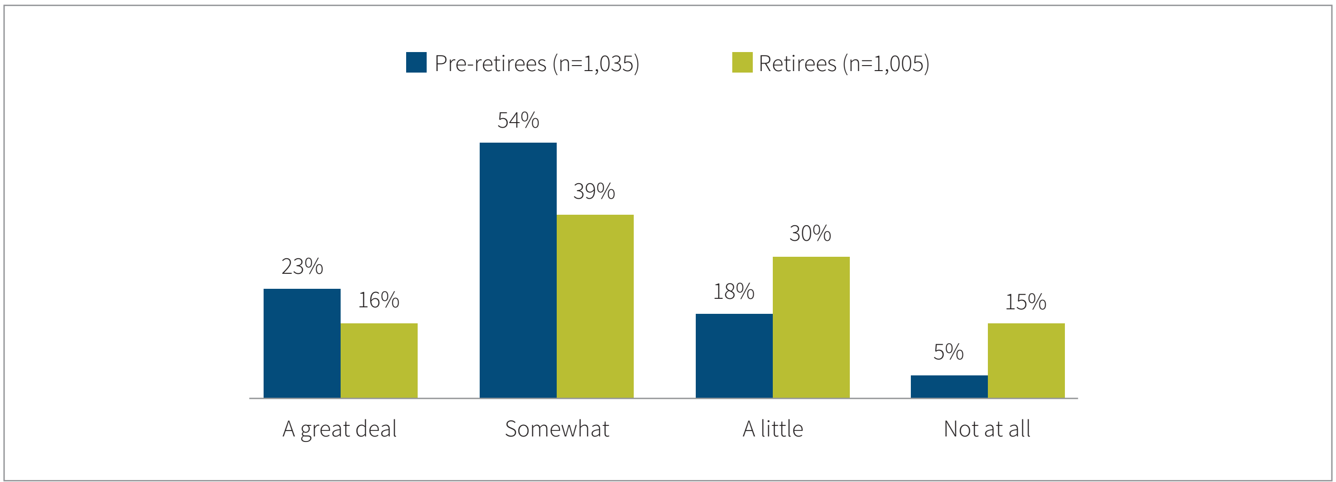
The bottom line is, preserving assets is a major priority in many households. More than half of both pre-retirees and retirees are focusing on this. The finding suggests that some of these individuals may want to learn more about how to make their money and income last a lifetime.

FOCUS GROUP QUOTES

- ***"I said, you know, all of a sudden I don't run out and buy that thing that I was going to get, the extra thing for the garage or this or that. You think twice before you make a purchase. I think I still do."*** —Female, Chicago, IL
- ***"I have several retirement funds that I foolishly cashed in, spent on I don't know, home repairs or I don't know. We had to pay an enormous penalty. One thing I really wish I hadn't of done is that, because that was thousands and thousands of dollars and would have helped a lot through the years. If I had known then what I know now I would have made a lot of different choices in how much money I put up and what I did with my money."*** —Male, Dallas, TX
- ***"Well, it makes you feel comfortable if you know you can kind of stay at the same level. I don't want it to decrease tremendously, because then that might affect my lifestyle. With interest rates falling, declines, etc., etc., I feel like maybe you might have to tighten the belt if it gets below the point. But it is nice to feel comfortable, and I believe that brings a lot of happiness to [have] financial stability."*** —Female, Chicago, IL

THE SURVEY QUESTION:

To what extent, if at all, (do you think/does) the need to preserve assets in case they are needed for a possible future event (will) cause you (and your spouse/partner) to limit your spending (in retirement)?



11 Spending in Emergencies Varies Widely

SURVEY FINDINGS ON EMERGENCY SPENDING

The amount pre-retirees and retirees could spend in an emergency varies widely. Specifically, 20% of pre-retirees and 30% of retirees reported that they could spend at least $25,000 on something unexpected without jeopardizing their retirement security.

However, for many, the situation is quite different. In each segment, 20% said they could only afford to spend less than $1,000 on such an emergency. Another 10% in each segment said they could spend $1,000 to $4,999 and $5,000 to $9,999.

One-quarter of pre-retirees and 20% of retirees are not sure how much they could spend.

DISCUSSION

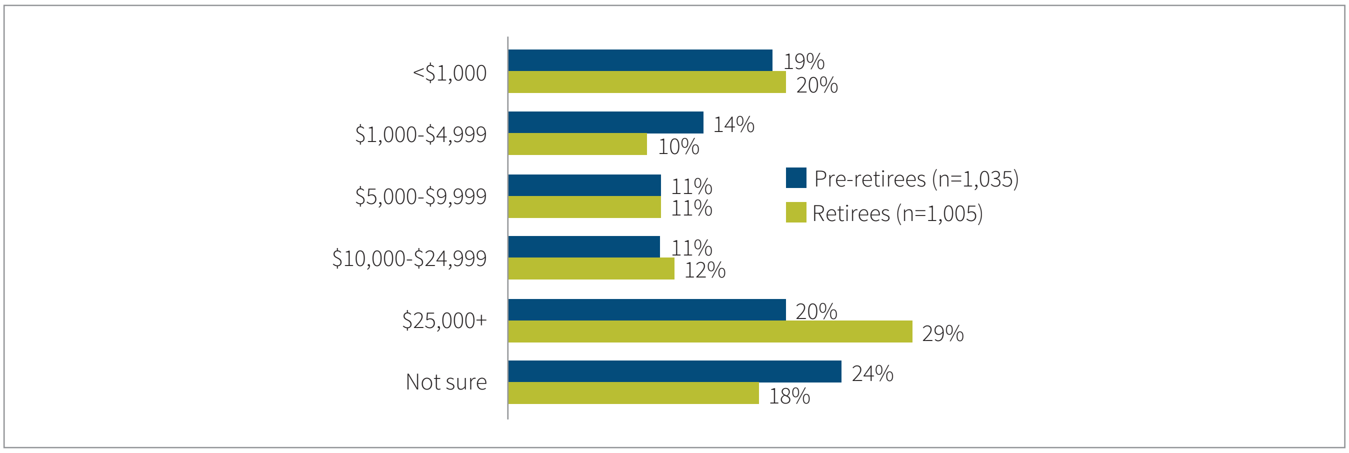
The *How Americans Manage Their Finances* study, referenced earlier, shows results that are generally consistent with the survey findings. Many families do not have much of an emergency fund, and many people do not plan well for normal unexpected expenses. However, for many retirees, home repairs are a “normal unexpected expense.” They are expected over the long term but unpredictable in the short term. The unknown size of the emergency expense makes planning for it difficult.

FOCUS GROUP QUOTES

- ***“I had a very expensive dental bill that I had not planned. I’ve paid already $3,000 and I’ve just begun.”*** —Female, Baltimore, MD
- ***“I gifted the kids’ money when they needed it.”*** —Female, Chicago, IL
- ***“My son became very ill and he had a house and he thought he had insurance that kicked in after he was off so long and he went right into debt with this house. He was going to lose it, so I had to remortgage my house to get out of that mess and then he sold it.”*** —Female, Kitchener, ON

THE SURVEY QUESTION:

Suppose something unexpected were to happen to you (or your spouse/partner) that forced you to dip into your savings and investments to pay for it. What is the maximum amount you could afford to spend on the event, without jeopardizing your retirement security?



12 Types of Debt Differ between Retirees and Pre-Retirees

SURVEY FINDINGS ON TYPES OF DEBT

In general, pre-retirees were more likely than retirees to hold each type of debt. The most common types of debt held by pre-retirees and retirees in the survey were mortgages (52% of pre-retirees and 30% of retirees), credit card debt (48% and 35%) and car loans (40% and 24%).

The frequency of debt differed by income level and type of debt. For instance, higher income individuals were much more likely to have mortgage debt and a home equity line of credit. Among pre-retirees, 72% of those with income of $100,000 or more had mortgage debt. By comparison, among retirees, 43% of those with income of $75,000 or more had mortgage debt, and just 19% of retirees with incomes of $35,000 or less had mortgage debt.

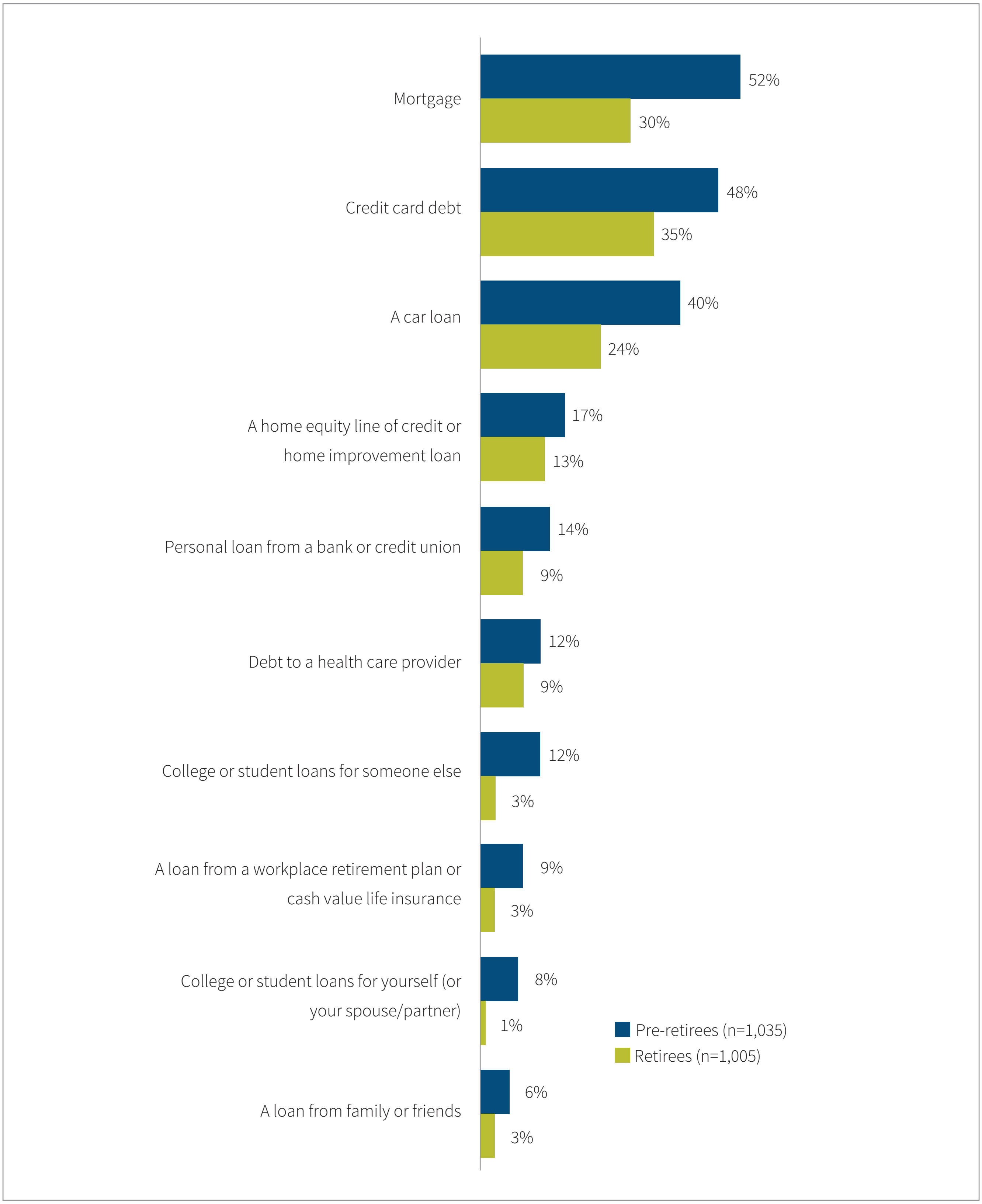
The situation is very different for credit card debt and debt to health care providers. The lowest income group was much more likely to have such debt, both among pre-retirees and retirees.

DISCUSSION

Debt should be a major concern for many families. More work is needed to understand the relationship of debt and retirement security. Whether debt is a problem or not depends on the picture for the entire family. Many retirement experts suggest that it is helpful for retirees to pay off their debt before retirement.

THE SURVEY QUESTION:

Do you (and your spouse/partner) currently have …?



13 Pre-Retirees Carry Higher Debt Amounts

SURVEY FINDINGS ON DEBT AMOUNTS

Pre-retirees tend to carry higher amounts of debt than do those who have entered retirement. But some retirees do carry some level of debt.

In the survey, almost 30% of pre-retirees with debt reported carrying at least $30,000 in debt, excluding any mortgage. Another one-third said they carry between $10,000 and $29,999. By comparison, retirees tended to carry lower levels of debt, with half indicating their debt totaled less than $10,000.

DISCUSSION

The biggest issue with debt is whether it can be paid down in a rational manner while maintaining the retirees' standard of living. A second issue is whether using debt is a good financial decision. Some debt has very high interest rates, while other debt has much lower interest rates. For example, credit card debt and pay-day loans tend to have very high interest rates. Mortgage and 401(k) plan loans usually have more modest interest rates. After retirement, the ability to get loans at a reasonable rate usually decreases as income decreases and retirees' ability to assume more debt is reduced.

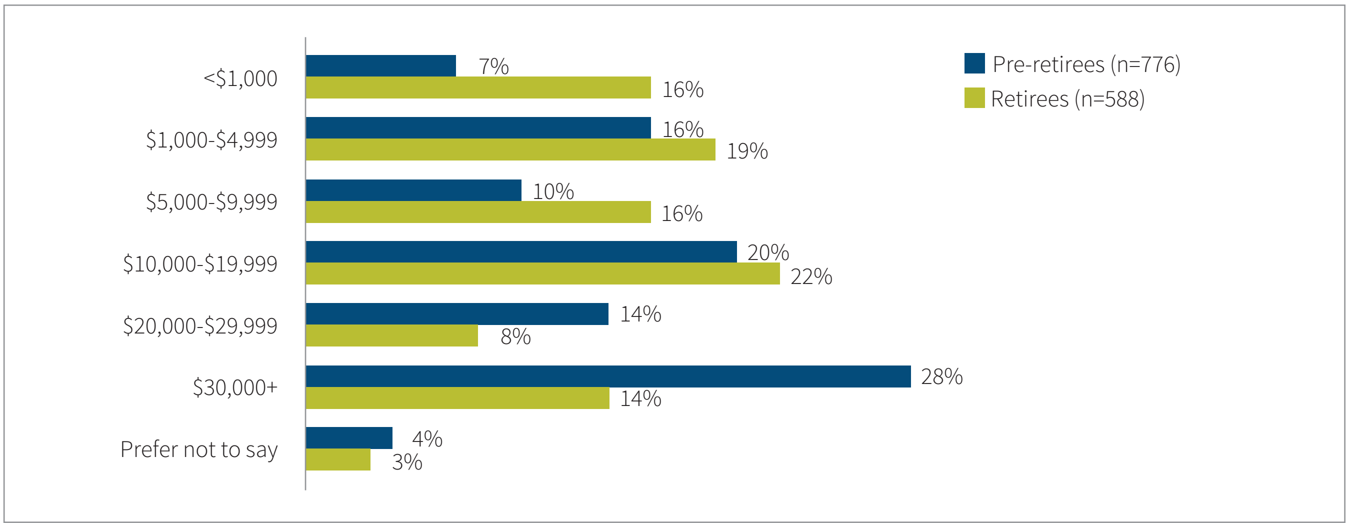
People who are building up debt just before retirement may be spending more than they are earning and thus will be in a worse position to live within their means as income is reduced during retirement. Debt resulting from a shock or unexpected expense is different from debt that simply reflects an unsustainable spending level.

FOCUS GROUP QUOTES

- ***"It looked like there was going to be enough money, and we were pretty secure in what we had owned and everything. We had no debt really to speak of. So that is why I retired."*** —Male, in Baltimore, MD
- ***"I knew how much money I could spend on everything and tried to pay as you go and not get credit cards, credit card bills."*** —Female, Dallas, TX
- ***"My son became very ill and he had a house and he thought he had insurance that kicked in after he was off so long and he went right into debt with this house. He was going to lose it, so I had to remortgage my house to get out of that mess and then he sold it."*** —Female, Kitchener, ON

THE SURVEY QUESTION:

(Not including your mortgage) approximately how much debt do you (and your spouse/partner) have in total? (of those who have debt)



14 Debt Can Curtail Amounts Saved for Retirement

SURVEY FINDINGS ON DEBT IMPACT ON RETIREMENT SAVINGS

The survey shows that debt can negatively impact how much pre-retirees are able to save for retirement.

More than half of the pre-retirees with debt (56%) said that their debt has negatively impacted, either a great deal or somewhat, how much they are able to put away each month in savings and investments. On the other hand, slightly less than one-fourth (22%) said their debt has not impacted their ability to save.

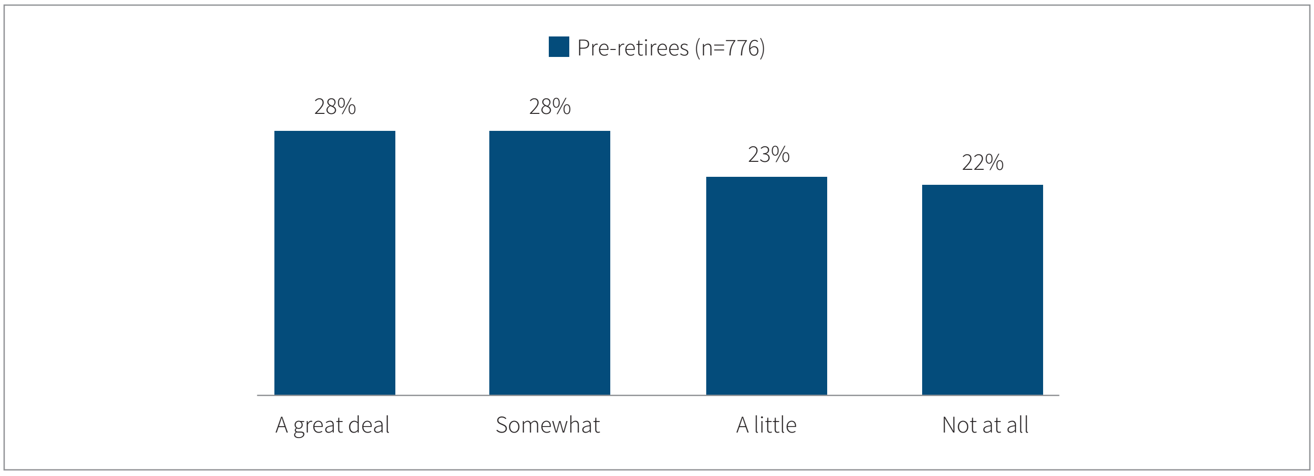
DISCUSSION

This is an important concern. Families that are negatively impacted need to pay down the debt while also recognizing that they have not saved enough for their future. Compounding the problem is that retirement savings goals that they may hear about often do not include paying down debt; these goals may therefore be too low given the fact that people are already living beyond their pre-retirement means.

This can be a downward spiral that lasts a lifetime. Retirement planning experts are looking into educational programs and other means of helping debt-troubled families and individuals who are trying to improve their retirement savings prospects, but more work needs to be done.

THE SURVEY QUESTION:

To what extent, if at all, has debt negatively impacted how much you are able to put away each month in savings and investments? (if worker with debt)



15 Debt Not Seen as a Threat to Retiree Lifestyle

SURVEY FINDINGS ON DEBT AND RETIREE LIFESTYLE

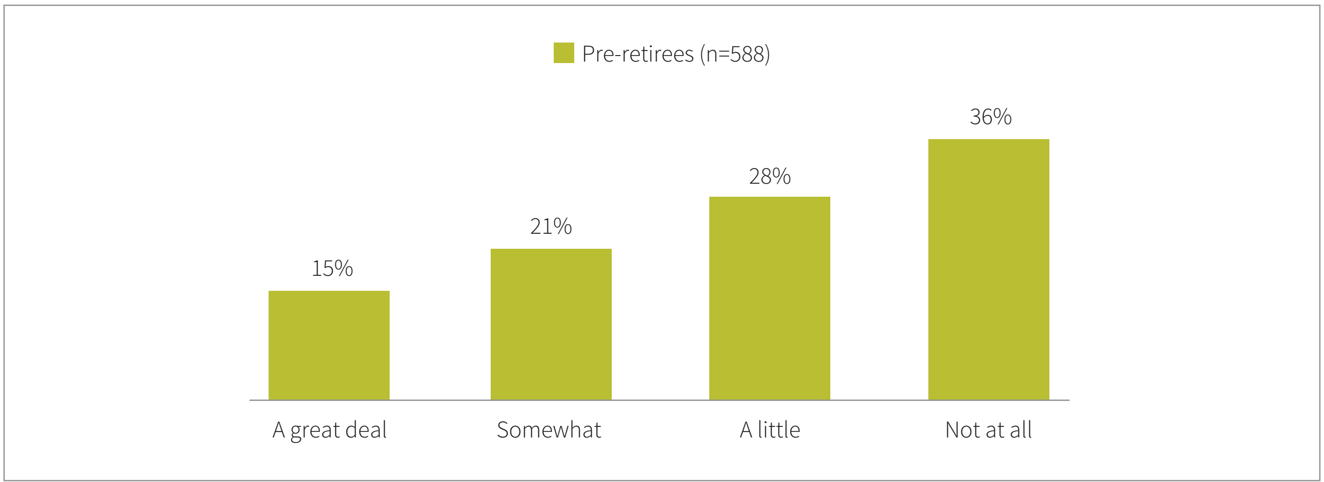
Among retirees with outstanding debt, few feel their debt impacts their ability to maintain their desired lifestyle. More than half (56%) told researchers they feel the debt has little or no impact in this area. Just 15% report that their debt has impacted their desired lifestyle a great deal.

DISCUSSION

This is encouraging and an area that merits further exploration. For instance, why do they feel this way? Is their debt level too small to make much of a difference, or perhaps are they not aware of how debt can erode future financial security?

THE SURVEY QUESTION:

To what extent, if at all, has debt negatively impacted your ability to maintain your desired lifestyle? (if retiree with debt)



Related Research

PERSPECTIVES ON DEBT, EXPENSES, SAVINGS AND MORE

The *How Americans Manage Their Finances* paper referenced earlier includes considerable insight into debt and the ability of Americans to pay unexpected expenses, including information about older Americans. In addition, the GAO report referenced earlier, *GAO Report 16-242 Retirement Security: Better Information on Income Replacement Rates Needed to Help Workers Plan for Retirement*, includes some data on retirement spending along with ample data on retirement readiness and adequacy.

Each report includes findings that supplement those in the SOA Survey and so are included here.

The *How Americans Manage Their Finances* paper was a joint research project of the SOA, the Social Security Administration and the Center for Economic and Social Research at the University of Southern California. The authors are Leandro Carvalho, Arie Kapteyn and Htay-Way Saw. The following discussion should be read with the understanding that this study's results were separated by age but not by retirement status. A few of the findings are the following:

Most Americans use banks: The study found that 91% of Americans have a savings or checking account, and 9% are unbanked. The percentage unbanked is 13% at ages 18–39 and gradually declines to 4% at ages over 70 (Table 15). Those without checking or savings accounts were much more likely to have lower incomes and not be currently working (Table 16).

Unexpected expenses present challenges: The study found that many people think it would be difficult to have unexpected expenses, especially expenses of \$5,000 or \$10,000. An unexpected expense of \$1,000 would pose difficulties too for 70% of the surveyed Americans. Even an expense amount of \$500 would be a problem for 31%.

Percentage of Respondents (at All Ages) Who Best Can Pay for an Unexpected Expense of Various Amounts

Expense Amount	\$500	\$1,000	\$5,000	\$10,000
I could easily pay for this expense	69%	30%	13%	10%
I could pay for this expense, but it would involve some sacrifices	17	47	20	11
I would have to do something drastic to pay for this expense	5	10	44	14
I don't think I could pay for this expense	9	13	23	70

Source: How Americans Manage Their Finances Study, Tables 82, 84, 86, and 88.

Note: Numbers may not add to 100% exactly due to rounding.

Older Americans do better than the general population: Older respondents appear to be better equipped to deal with unexpected expenses than respondents at all ages, according to results in the table below, which focuses on ages 70 and over. Even so, three-fourths of these older individuals believe they would be challenged by an unexpected expense of \$5,000 or more, and 46% believe they could not pay for a \$10,000 expense. This information should be considered together with the information on shocks in retirement (discussed in a separate SOA Special Topic Report). The research on shocks provides insight about the size of an unexpected expense that will cause a major problem as well as why multiple shocks are a bigger problem.

Percentage of Respondents (at Age 70 and over) Who Can Pay for an Unexpected Expense of Various Amounts				
Expense Amount	$500	$1,000	$5,000	$10,000
I could easily pay for this expense	85%	49%	25%	23%
I could pay for this expense, but it would involve some sacrifices	8	38	30	14
I would have to do something drastic to pay for this expense	2	5	37	17
I don't think I could pay for this expense	4	8	9	46

Source: How Americans Manage Their Finances Study, Tables 82, 84, 86, and 88.
Note: Numbers may not add to 100% exactly due to rounding.

Fewer older Americans have home loans than do all Americans: More than half of the Americans (62%) indicated that they own their own homes. Of those who answered the question about home loans, 70% had a mortgage and/or an equity line of credit, and 30% had neither. By comparison, of those age 70 and over who responded to the home loan question, 56% had no mortgage or equity line of credit (Tables 1 and 2). Among respondents who were household decision makers, homeowners and mortgage holders, 55% said they do have plans to pay off the mortgage, including 73% of those over age 70 and 46% of those at ages 60–69.

Most older people use credit cards: Among the older Americans surveyed, 83% of those ages 60–69 said they used credit cards in the last three years, as did 91% of those age 70 and up. This compares to 76% of all respondents who said the same (Table 23). One-half or more of older Americans also said they pay their credit card balances in full; specifically, 49% of those ages 60–69 said this, as did 64% of those age 70 and up. By comparison, just 41% of all respondents said the same (Table 23). Of interest is that 16% of the respondents said they had taken a cash advance on a credit card in the last three years (Table 25).

Some older people pay on student loans. Among all respondents, 27% said they currently owe money on student loans for someone. This includes 6% of respondents over age 70, and 12% of respondents ages 60–69 (Table 32).

The *GAO Report 16-242 Retirement Security: Better Information on Income Replacement Rates Needed to Help Workers Plan for Retirement* included a look at household spending by age, with results based on analysis of 2013 Bureau of Labor Statistics consumer expenditure data.

This research found that mid-career households reached a maximum spending level and that spending declined by age thereafter.

Estimated Average Annual Household Expenditures for Select Age Groups, 2013				
Expenditure Type	Mid-Career (45–49)	Young Retirees (65–69)	Mid-Retirees (75–79)	Older Retirees (80+)
Housing	$18,400	$15,200	$11,400	$11,300
Transportation	10,200	7,900	5,900	3,600
Food	8,500	6,900	5,600	4,800
Personal insurance and pensions	7,800	4,100	1,300	900
Health	3,500	4,900	4,800	4,700
Entertainment	3,000	2,400	1,400	1,100
Apparel	1,400	900	500	400
Other	5,600	4,500	3,600	4,700
Total	**$58,500**	**$46,800**	**$34,700**	**$31,400**

Source: Table 2, page 11 of GAO report. Age based on the age of the reference person in the household. Note that the average household size was 2.9 for mid-career households compared to 2.1 persons for young retirees, 1.7 for mid-retirees and 1.5 people for late retirees.

The GAO also examined household expenditures by income quartile. They found expenditures to be relatively flat by age in the lowest income quartile. In the other quartiles, expenditures declined at higher ages when compared to mid-career households.

EBRI Analysis of Expenses

The Employee Benefit Research Institute (EBRI) has analyzed household spending by older Americans using data from the Health and Retirement Study (HRS) and Consumption and Activities Mail Survey (CAMS). These are a few highlights from the EBRI-published reports linked to some of the findings from the 2015 risk survey.

OVERALL SPENDING

The SOA surveys and focus groups consistently have shown "reducing spending" as the primary risk management strategy. The 2015 focus groups indicated a willingness to reduce spending and discussion of moving from spending on "wants" to focusing on "needs." There was pride about frugality. The EBRI reports provide insight into types of spending by age and how spending changes by age, but not into shocks and what is unexpected.

Three EBRI reports provide different views on spending:

Issue Brief 368, Feb. 2012, **Expenditure Patterns of Older Americans, 2001–2009**

EBRI Notes, Sept. 2014, **How Does Household Expenditure Change with Age for Older Americans?**

Issue Brief 420, Nov. 2015, **Changes in Household Spending after Retirement.**

Key conclusions from this research include the following:

- Spending drops by age group and also after retirement
- Housing is the largest area of expenditure by far
- Health care is the one area of spending that does not decrease by age; mean spending increases both as a dollar amount and as a percentage of total. Median household health care spending is flat between ages 65–74 and 75–84 and decreases from 75–84 to over age 85.
- Transportation, entertainment and clothing expenses decrease more rapidly than housing and food expenses.
- Some categories show a lot more variability than others.

FAMILY TRANSFERS, SHOCKS AND UNEXPECTED EXPENSES

In the 2015 SOA post-retirement risk research, one of the major shocks and unexpected expenses in the focus groups and survey was transfers to children (and presumably grandchildren). The focus groups indicate that the shocks were primarily in response to some sort of a "problem": a child had major illness, child lost job, child got divorced etc. These payments were one of the shocks that had lasting impact and often were not dealt with well. The impression received is that the parents seemed to feel it was very important to help children needing help even if they could not really afford it.

Mean and Median Household Spending in 2011 Adjusted to 2013 Dollars by Age Group						
	Age 65–74		Age 75–84		Age 85+	
	Mean	Median	Mean	Median	Mean	Median
Home	$18,720	$12,642	$14,732	$10,805	$13,111	$8,781
Food	4,526	3,982	3,994	3,228	2,520	2,152
Health	4,383	3,104	4,624	3,109	6,603	2,814
Transport	5,169	4,025	3,666	2,794	1,972	1,241
Clothing	1,311	724	950	569	888	434
Entertainment	4,300	2,380	3,277	1,655	1,609	714
Other	3,583	1,148	3,565	1,034	3,188	734
Total	$42, 805	$34,036	$35,315	$29,884	$30,610	$22,263

Source: Figure 2 from EBRI Notes, Sept. 2014, How Does Household Expenditure Change with Age for Older Americans?

EBRI discusses family transfers in *Intra-Family Cash Transfers in Older American Households*, Issue Brief 415, June 2015. The EBRI report shows that 38% to 45% of older households make cash transfers to younger family members. On the other hand, only 4% to 5% of older households receive transfers from younger family members. The cause of the transfer is not identified. The older households are age 50 and older, and analysis covers 1998 to 2010. In 2010 the percentage of households making transfers to children and grandchildren and the amount of transfers by age group is as follows:

Age Group	% Making Transfers	Average Amount	Average: 2nd Income Quartile	Average: Top Income Quartile
50–64	51%	$16,272	$7,411	$27,378
65–74	39	13,639	7,784	21,072
75–84	33	14,704	9,849	22,864
85 and over	28	16,835	13,474	24,601

Note: Average Amount is average transfer in last two years by households making transfers in 2014 dollars. Averages are shown for all households and for second and top income quartile.

Transfers are more likely in higher asset and income families, and the amounts are larger.

What Employee Benefit Managers Say about Debt

A new survey from the International Foundation of Employee Benefit Plans, *Financial Education for Today's Workforce [2016 Survey Results]*, provides insights about major financial challenges for employees and the inclusion of debt management issues in employee education.

When asked the most important reasons for providing financial education, 52% of respondents indicated that increasing participants' ability to manage money as important. In addition, 54% of respondents indicate they believe their participants face more personal financial challenges today than five years ago.

The survey identified challenges affecting significant percentages of participants. Credit card and other debt was chosen as the top related financial challenge affecting employees. The following items were identified and are shown in the order of prevalence:

Challenges Affecting Significant Portion of Participants (Select All That Apply)	Total Percent Choosing Option
Credit cards and other debt	66%
Trouble saving for retirement	60
Saving/paying for children's education expenses	51
Covering basic living expenses (e.g., food, housing, transportation to work)	48
Paying medical expenses	36
Supporting elderly parents	32
Supporting adult children	28
Paying off personal student loan debt (for past education)	21
Saving/paying for own future or current education expenses	16
Bankruptcy	8
Identity theft	7
Other	3

Source: Exhibit 2 of Financial Education for Today's Workforce [2016 Survey Results].

The survey also provided insights into elements of employer-supported financial education. At least four of the elements would assist participants in understanding and managing debt: budgeting, spending, borrowing/loans and credit cards. However, these were not chosen as most prevalent in the list. In the order chosen, these are the elements included:

Elements Included in Financial Education (Select All That Apply)	Total Percent Choosing Option
Investments	65%
Savings	60
Insurance	41
Budgeting	38
Avoiding scams/identity theft	28
Spending	26
Borrowing/loans	23
Credit cards	18
Paying taxes	17
Managing a bank account/checkbook	15
Other	5
None	12

Source: Exhibit 16 of Financial Education for Today's Workforce [2016 Survey Results].

When asked about factors most impacted by financial challenges, the top two chosen by respondents in total were stress (76%) and inability to focus on work (59%). In essence, employees' financial challenges can increase stress and absenteeism, decrease their ability to focus at work, and even impact their physical health. Employers may find it in their best interest to help their employees deal with their debt and spending decisions.

Perspectives on Debt and Expense Issues

Is Consumer Debt Killing the American Dream?

By Greg Ward

Today's vision of the American dream often includes a *financially secure retirement*, yet only about one in five workers is very confident they are on track to achieve this dream. One factor that may be contributing to this lack of retirement preparedness is the proliferation of consumer debt.

According to the Federal Reserve Bank of New York's *Consumer Credit Panel*, as of December 31, 2015, American households maintain more than $12 trillion of consumer debt in the form of home mortgages, auto loans, credit card balances, student loans and other personal loans. While not all debt is bad (e.g., mortgage and student loans), high-interest debt is costing households thousands of dollars a year in finance charges. That's money that could be going into retirement savings.

The problem may be even greater for lower income households, which tend to carry greater percentages of high-interest debt like credit cards and payday loans.

So how has this come to be? Part of the problem may be our insatiable desire to live the American dream now. The Greatest Generation was more inclined to work hard, live frugally and sacrifice current enjoyment for future reward. Can the same be said for today's generation of workers? It's true that many are contributing to their retirement plans at work, but they are also buying bigger homes, newer cars, wider TVs and fancier vacations. It seems access to credit has enabled a consumption mentality, but to what end?

According to the Society of Actuaries' 2015 Risks and Process of Retirement Survey, debt has had little to no effect on a retiree's ability to maintain their desired lifestyle. However, these same retirees find retirement expenses to be higher than expected, and many end up having to reduce their expenses as a result. In other words, they sacrifice, live frugally and don't spend what they don't have—not exactly the definition of today's American dream.

Here are *six steps plan sponsors can take* to improve their employees' chances of achieving the American dream:

1. Encourage employees to run an annual retirement projection: According to a *Financial Finesse* study, 76% of employees that are not on track for retirement have not used a retirement calculator to run a projection.

2. Increase the automatic enrollment deferral rate to at least 10%: Most financial planners recommend employees contribute 10% to 15% of pay to their retirement plan.

3. Enroll employees in automatic rate escalation: Employees are less likely to change or opt out of the program but instead are more likely to adjust to their income.

4. Provide annual benefits planning: As Liz Davidson points out in her book *What Your Financial Advisor Isn't Telling You*, employees often underutilize the benefits available to them through their employer.

5. Use communications to target specific demographics: There is no one-size-fits-all approach to benefits communication. Recognize differences in age, gender, employment status, etc. and use communication methods that resonate with each group.

6. Develop a comprehensive financial wellness program: Consumer debt is often the result of employees living beyond their means. Most retirees (60%) have a spending plan, and few (11%) spend more than they can afford. Offer education that teaches employees how to create a spending plan, reduce expenses, pay off debt, save for large purchases and expenditures, and prepare for the unexpected.

A Short Essay on Spending Patterns and Debt

By Sandy Mackenzie

All retirees want to ensure that their retirement nest egg will not be exhausted before the end of life. Social Security retirement or in some cases disability benefits make this task less difficult, as does the traditional pension. Social Security benefits and traditional pensions are paid for life, and Social Security benefits have the added and invaluable feature of being indexed to the Consumer Price Index.

Nonetheless, most retirees are unable to live on Social Security and a traditional pension alone, and they must take care to ensure that that part of their spending that is not financed by these sources is sustainable.

All retirees must cope with two major uncertainties: how long will they live, and the state of their health. Unexpected illness, its emotional cost aside, can entail very large bills, as can the need for long-term care. Medicare and Medigap policies can substantially reduce the magnitude of unexpected medical expenditures, but the expenses of long-term care are more difficult to manage. Financial market fluctuations add to the risks retirees confront.

In principle, a retiree can deal with unexpected expenditure by working more, spending less or borrowing. In practice, working more or going back to work is not an option for most retirees. Borrowing may be, but debts have to be repaid. Most retirees must reduce their expenses when confronted by large unexpected bills. Even if their expenditures are predictable, they need to ensure that they do not run down their assets too quickly.

The Special Topic Report's summary of an online survey of 1,005 retirees and 1,035 pre-retirees suggests that most retirees are able to manage their finances well. Nine of 10 say that their spending during the year is no more than what they can afford. Six of 10 have a spending plan, although retirees tend to be more aware of regular expenses than irregular ones, which may not be fully reflected in their planning. The survey's findings suggest that most retirees are prudent and are able to reduce spending when necessary without great difficulty. Decreases in spending generally reflected a conscious effort.

However, the perceived need to preserve assets can put a brake on spending. Expenses and indebtedness decline with age, although this does not appear to reflect a worsening of retiree finances. Only 4% of retirees have student debt or are paying off the debt of a family member.

One disquieting finding of the survey was the apparent inability of many retirees to deal with a shock to expenditure. About one in two retirees aged 70 and over stated that they would not be able to pay an emergency expense of $10,000, which is not a huge sum, and less than one in four said they could easily pay such an expense. About one in three retirees report that debt has reduced their ability to maintain their desired lifestyle. The first finding suggests that many retirees are able to cope under normal circumstances, but are hard pressed to deal with emergencies. This difficulty could stem from the tendency for planning to disregard unpredictable expenses. Budgeting for what is uncertain is especially hard because both the timing and the magnitude of the expense are unpredictable.

The conclusion that the survey points to is that older Americans are not spendthrifts, but need to pay more attention to the financial consequences of life's uncertainties. Bad luck in the form of a string of unplanned-for expenses could easily derail a retiree's finances.

Conclusion

Many retirees, especially those in the lower income categories, have difficulties managing their spending in retirement, especially if they encounter unexpected “shock” events that require a major outlay of funds.

The post-retirement risk research from the Society of Actuaries has clearly demonstrated that managing spending is a major method of risk management. This is a repeated finding from several surveys.

Spending, and particularly unexpected spending and response to shocks, was a major focus of the focus groups and survey. The research provided interesting insights, strongly indicating that the retirees were resilient, and most of the focus group participants were working hard to carefully manage their expenses. They took pride in frugality. But regardless of their efforts some were left struggling and were not able to adjust very well. Situations that commonly caused major problems were significant long-term care events, divorce and adult children needing a lot of help. Retirees experiencing multiple shocks were also more likely to be adversely affected.

The research indicated that retirees are working hard to manage their spending and debt. Many told SOA researchers that they curtail purchases, travel, trips to the movies and other expenditures to bring their personal spending into line with available income and funds.

Although some retirees do carry debt in retirement, research shows that retiree debt is at a lower overall level than debt loads for pre-retirees. This suggests that many retirees have been conscientious about reigning in debt. In addition, although income in retirement is often lower than during the working years, so too are certain fixed household expenses such as transportation and food, at least for many households, especially those that concentrate on managing expenses and/or that no longer have dependents living at home.

Then again, health care utilization is generally higher at older ages than earlier in life, and unlike most expenses, acute health care costs after age 65 tend to be higher than at younger ages, and many will experience long-term care costs in the later years. Both of these areas of expenditure, along with the possibility of shocks such as emergency expenditures, provide compelling reasons for retirees to learn more about managing spending and debt throughout their retirement years.

The findings also provide compelling reasons for actuaries and others who work to develop systems and products for retired Americans to find ways of helping them address spending and debt challenges.

Earlier in this Special Topic Report, we said that “More work is needed to understand how serious a problem this is.” We reiterate that point here. To that end, the retirement industry will need more data about spending and debt management in the retirement years.

Profile of the 2015 Studies

Some details on the three sets of 2015 SOA studies that form the basis of this Special Topic Report follow:

The 2015 Risks and Process of Retirement Survey was designed to evaluate Americans' awareness of retirement risk, how their awareness has changed over time, and how these perceptions affect the management of their finances.

This Special Topic Report on Spending and Debt Management presents only some of findings from the entire survey, specifically those relating to spending patterns and debt.

The 2015 survey includes online interviews with 2,040 adults ages 45 to 80 (1,005 retirees and 1,035 pre-retirees) in August 2015, plus 198 interviews with retired widows. The participants were selected by using Research Now's nationwide online consumer panel.

The researchers analyzed the survey responses from current retirees and those not yet retired (referred to in these reports as "pre-retirees") separately. The pre-retirees and retirees represent all income levels.

Particular care was taken to ensure the income distribution of respondents matched the income distribution of Americans overall in the age range of 45 to 80. This was done through a combination of fielding targets and weighting. The research does not provide specific insights concerning high-net-worth individuals, and the researchers made no effort to oversample individuals with high levels of assets. Only 6% of pre-retirees and 9% of retirees reported having investable assets of $1 million or more.

This was the eighth biennial study of public perceptions about these risks. The SOA survey includes new questions with each iteration and doesn't repeat all questions from year to year. The SOA does this to further the understanding of key issues as well as keep readers current with changes in perception of risk.

For a balanced perspective, the discussion sections in this report include input from representatives of all organizations that supported the studies and material from other related research.

The 12 focus groups were conducted in June and July of 2015 in five locations: Baltimore, MD; Chicago, IL; Dallas, TX; Kitchener, ON; and Edmonton, AB. This study was designed specifically to understand how middle-income market retired Americans and Canadians manage their assets and spending decisions over the long term. It looked at longer-term retirees who had been retired for 15 or more years and had investable assets between $50,000 and $350,000. None had household incomes of over $2,000 a month from rental properties and defined benefit plans, a restriction that allowed researchers to focus on people with some financial constraints.

The focus groups were separated by asset level and by gender. In addition, some groups focused on those who had experienced marital change in retirement.

The in-depth interviews were conducted with people whose parent or spouse needed long-term care in old age. The researchers did these interviews because retirees experiencing long-term-care events were not represented in the survey or the focus groups.