

KEY FINDINGS
AND ISSUES:

The Impact of the Economy
on Individual Retirement Risks

>> Sept. 2012

2011 RISKS AND PROCESS OF RETIREMENT
SURVEY REPORT



Introduction and Background

FOR MORE THAN 15 YEARS, the Society of Actuaries (SOA) has focused on the study of post-retirement risks and how they are managed. The 2011 Risks and Process of Retirement Survey is the sixth biennial study of public perceptions related to such risk conducted on the SOA's behalf by Mathew Greenwald and Associates, Inc. and the Employment Benefit Research Institute (EBRI). The survey was conducted during a period of reduced housing values, persistent and high unemployment, substantial volatility in equity markets and concerns about public policy, the federal deficit and programs for supporting retirement.

This report presents findings from the 2011 Risks and Process of Retirement Survey, specifically those relating to economic and financial issues. It addresses factors affecting retirement security, equity investments and their management, the effects of delayed retirement, changes in spending habits, and new approaches to quantifying adequacy of retirement wealth.

The survey is 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. It was conducted through telephone interviews of 1,600 adults ages 45 to 80 (800 retirees; 800 pre-retirees—twice the sample number of prior surveys) in July 2011, before the most recent round of stock market volatility, U.S. debt downgrade and numerous federal interest rate announcements. Households were selected for participation from a nationwide targeted list sample. The margin of error for study results, at the 95 percent confidence level, is ± 4 percentage points for questions asked of all retirees or all pre-retirees. Additional reports provide an overview of Americans' perceptions of the major retirement risks, as well as a more detailed examination of longevity risk and working in retirement.

Responses from current retirees, half of whom retired before age 60, and those not yet retired (referred to in these reports as “pre-retirees”) are analyzed separately. The results are based on a representative sample of Americans and do not provide specific insights concerning high-net-worth individuals. Only 6 percent of retirees and 5 percent of pre-retirees report having \$1 million or more in savings and investments, and 6 percent of retirees and 8 percent of pre-retirees report having between \$500,000 and \$1 million. Thirteen percent of retirees and 30 percent of pre-retirees indicate they have household incomes of at least \$100,000. At the low end of the spectrum, 25 percent of retirees and 21 percent of pre-retirees indicate they have less than \$25,000

in savings and investments, while 15 percent of retirees and 8 percent of pre-retirees report income under \$25,000.

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

Perspectives

EVALUATING RISK SURVEY RESULTS IN LONGER TERM CONTEXT

Respondents in 2009 and 2011 indicated that they are less well off than they were before the financial decline in 2008, and are more concerned now about their financial well-being. This survey showed that while the impact of economic conditions on their finances was significant, it was less so in 2011 than in 2009. It indicated that behavior changes put in effect in 2009 have persisted, but that few changes have occurred in the way people are planning to manage risk prospectively. Between 2009 and 2011, the percentage of retirees saying their finances were much worse declined slightly from 25 percent to 23 percent. For pre-retirees, the decline was more significant, from 34 percent to 25 percent.

Experts disagree about whether and by how much long-term change in retirement risk perspective will result from the recent economic turmoil. Other research from the SOA^[1] indicates that retirees have responded to difficult times by reducing spending and paying down debt, and that these behavioral changes from 2008 to 2009 continued through 2011. However, neither among pre-retirees nor retirees does there seem to be much change in their basic risk management strategies. Financial products except for health insurance are not seen as major components of risk management.

The risk survey series has highlighted several areas where perceptions about risk raise concerns with regard to planning for retirement. Planning horizon is a major concern, and too short a horizon underlies many of the other concerns. This should be considered together with the challenges for people who do not have levels of financial literacy required for the complexities of retirement planning.

There is also some apparent inconsistency between responses to these questions about the economy and increasing concerns about risk. The responses to these questions do,

however, appear to be generally consistent with results from *The Financial Recovery for Retirees Continues* study^[2] discussed later in this report.

CONCLUSIONS: PUTTING RESULTS IN PERSPECTIVE

It is clear from analysis of survey results that recent economic changes have affected people in vastly different ways, depending on their circumstances. In general, pre-retirees are more impacted by economic conditions than retirees and are more risk concerned. However, regardless of age, if, like many middle income and most lower income individuals, they have no retirement savings and are not currently saving for retirement, they will have little alternative but to rely primarily on Social Security. Without substantial investments in the financial markets, they may be very affected by job loss or housing values, especially if they planned to sell their home to supplement retirement income. On the other hand, they are not much affected by the equity markets. Even those already retired with significant wealth may still be relatively insulated from equity market volatility if they are not dependent on selling stocks for regular living expenses and provided their assets are not seriously affected by onerous legislative changes.

Others may be seriously affected by the equity markets or current low interest rates, especially those in the following situations:

- Near retirement, with a significant 401(k) balance in equities or other stock investments intended to fund retirement;
- Retired, heavily dependent on fixed income investments with results based on current market yields.

Yet others may find their retirement plans subject to moderate to serious economic influences:

Perspectives (continued)

- At any age, having a house with a mortgage larger than its market value, and with foreclosure likely;
- At mid-life or later, losing one's job and staying out of work for a significant period, forcing withdrawal of 401(k) assets as an emergency fund;
- Even in mid-career and with a job, but with significant 401(k) assets heavily dependent on stock market performance;
- Near retirement, planning to sell their house and to move to a different area or a less expensive home;
- If family members have problems or lose jobs, leading to diversion of one's retirement funds to help them.

Thinking about the actions and decisions required in each of these varied circumstances, we need to remember that sound decision making is heavily influenced by a number of factors. Research offers insights into what people know, their preferences, and how they act. Traditional thinking was that people would make rational economic decisions evaluating alternative courses of actions and choosing the course with the best expected financial outcome. However, an important field of research, behavioral finance, has led us to understand that many decisions are not always based on rational economic evaluation of the alternatives and that other factors often drive decision making.

As individuals make retirement decisions in light of current economic conditions, many will try to work longer as they reach what might otherwise have been their retirement age; and for some that may be a successful strategy. However, there is not much indication that they are availing themselves of various risk management products such as annuities, etc.

Economic change makes it more imperative that people do careful planning and evaluation, yet also makes it more difficult to do so. Research to date does not show much change in the way that people are planning, and it does not indicate that more people are thinking longer term, hiring advisors, or attempting to do more analysis of the influences that could affect their retirement security. The need for enhanced education in financial competence has never been greater.

ENDNOTE:

¹ Society of Actuaries, <http://www.soa.org/research/research-projects/Aging/assets-lifetime.aspx>.

² Society of Actuaries, <http://www.soa.org/research/research-projects/pension/research-financial-recovery-retire-cont.aspx>.

Impact of recession varies by personal situation.

Low Impact

- Already retired: have Social Security and defined-benefit (DB) plan benefits, but little or no investment in the stock market, and no plan to sell house or move in the near term
- Job continues: no investment in the stock market, or relatively modest investment and/or far away from retirement
- At any age: no retirement savings and not currently saving for retirement, plan to rely primarily on Social Security (or, without savings and planning, have no alternative)
- Already retired with significant wealth and not dependent on selling stock for regular living expenses assuming no onerous legislative change

Moderate Impact

- Job continues: mid-career and significant 401(k) savings invested in the market

Major Impact

- Near retirement: significant 401(k) balance in equities or other stock investments that were to be used to fund retirement
- Near retirement: plan to sell house and move to a different area, or plan to sell house and move to less expensive house
- Retired: heavily dependent on fixed income investments with results based on current market yields
- Any age: house has mortgage that is underwater, and foreclosure is likely
- Mid-life or later: lose job and stay out of work for a significant period, may use some 401(k) assets as emergency fund
- Family members have problems or lose jobs, and retirement funds are diverted to help them

Retirees and pre-retirees report being more concerned about their retirement finances than five years ago.

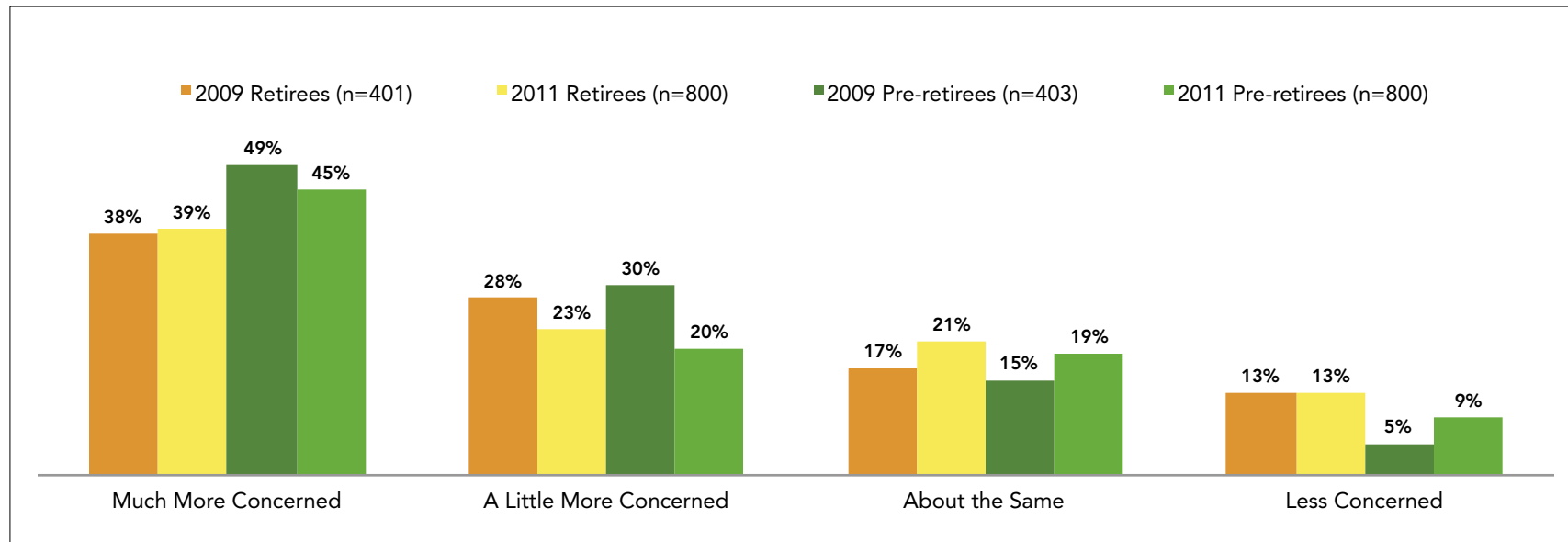
Findings

Retirees are just as likely as in 2009 to report they are more concerned than they were five years ago (prior to the changes in the stock market and economy) about their retirement finances (62 percent in 2011 vs. 66 percent in 2009). While seven in 10 pre-retirees feel the same way, they are less likely than in 2009 to say they are more concerned (65 percent vs. 79 percent).

Discussion

By 2011, the stock market had partially recovered its losses, but it has been quite volatile. Interest rates remained at very low levels; housing prices continued to be depressed; and unemployment continued at a high level. In addition, above-normal levels of unemployment had continued for quite a long time. In total, these conditions were very difficult for some people and quite disconcerting to others.

How much have the changes in the stock market and economy affected your financial concerns about retirement?



Source: Society of Actuaries, 2009 and 2011 Risks and Process of Retirement Surveys

Retirees and pre-retirees report that the negative effect on their finances from the economy and stock market have lessened somewhat since 2009.

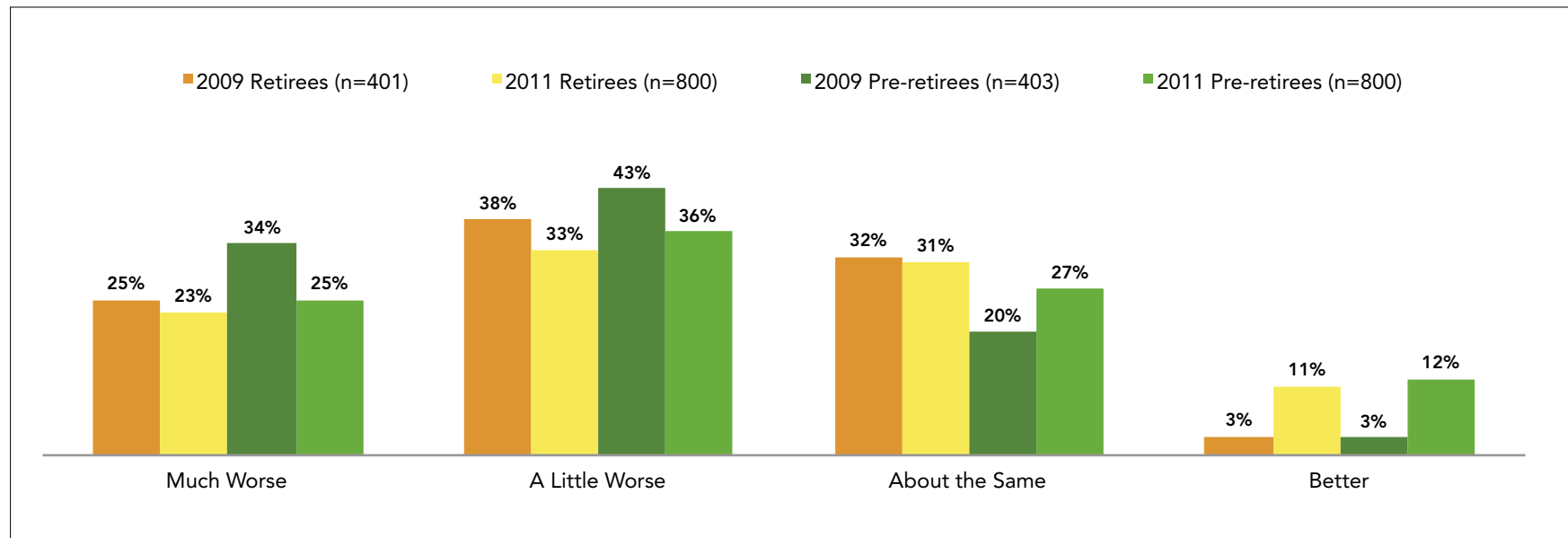
Findings

A majority of retirees (56 percent) and pre-retirees (61 percent) indicate their finances are worse than they were prior to the changes in the stock market and economy, including one-quarter each who are much worse off. However, the percentages saying they are worse off have declined from the levels measured in 2009 (retirees down to 56 percent from 63 percent in 2009; pre-retirees down to 61 percent from 77 percent).

Discussion

While the stock market improved somewhat from 2009 to 2011, lessening somewhat the impact on their finances since 2009, respondents continued to be more concerned than five years ago. They saw around them continued challenges in the housing market and high unemployment. In addition, they also saw that those who were trying to get jobs remained unemployed for long periods.

How much would you say your finances have been impacted by the changes in the stock market and economy?
Would you say your finances are now ...?



Source: Society of Actuaries, 2009 and 2011 Risks and Process of Retirement Surveys

The recession has made individuals feel they need to do a better job with their financial planning.

Findings

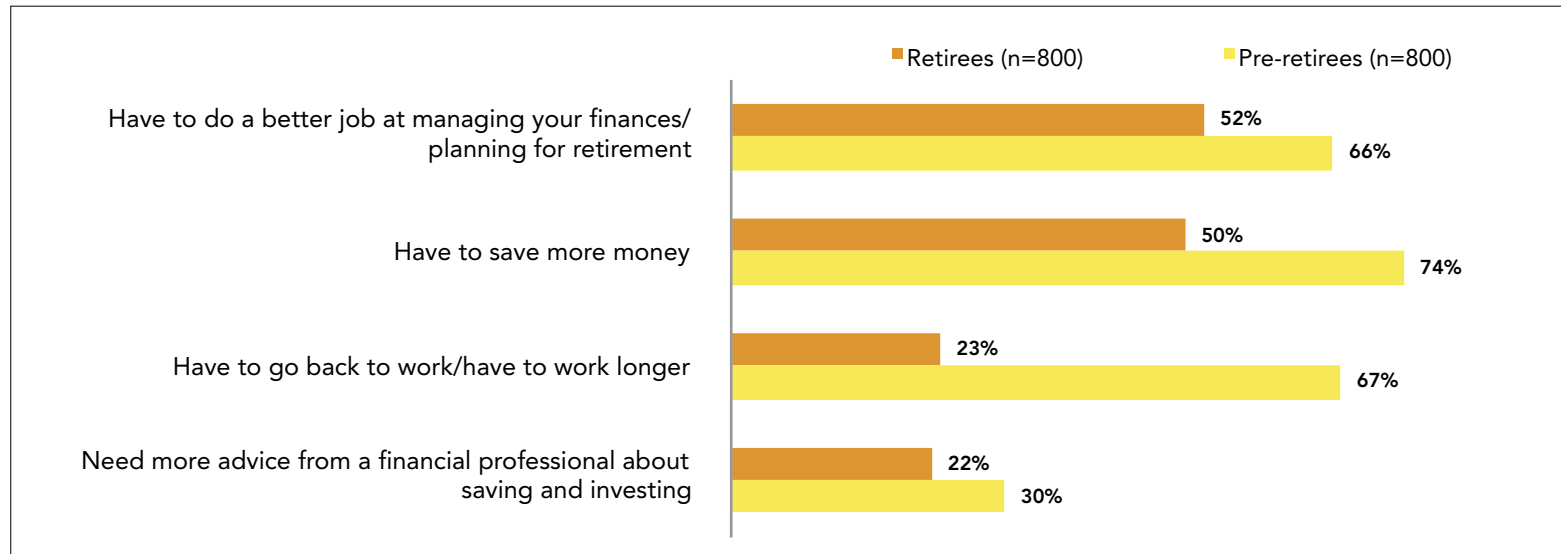
The economic uncertainty of the past few years has made half of retirees and at least two-thirds of pre-retirees feel that they need to do a better job of managing their finances or planning for retirement (52 percent of retirees and 66 percent of pre-retirees) and that they need to save more money (50 percent and 74 percent). While two-thirds of pre-retirees (67 percent) also feel they have to work longer due to the recession, less than one-quarter of retirees think they have to go back to work (23 percent). In addition, 22 percent of retirees and 30 percent of pre-retirees feel they need more professional advice about saving and investing as a result of the recession.

Discussion

Many people need to do better planning regardless of the recession. These findings are somewhat encouraging, but it is unclear whether people will follow through. Working longer gives the potential of more savings and a shorter period of retirement over which they will be needed. For the two-thirds of pre-retirees planning this approach, it may suffice if only they can find adequate job opportunities in their 60s and 70s.

Have the changes in the stock market and economy made you feel that you ... ?

(Percentage Very or Somewhat Concerned)



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Retirement Risk—Retirees in particular express increased levels of concern about retirement risk.

Findings

The retirement risk that most concerns both retirees and pre-retirees is keeping the value of their savings and investments up with inflation (69 percent of retirees very or somewhat concerned and 77 percent of pre-retirees). Almost as many also express concern about having enough money to pay for adequate health care (61 percent and 74 percent). Approximately six in 10 retirees and two-thirds of pre-retirees are concerned about having enough money to pay for long-term care (60 percent and 66 percent), being able to maintain a reasonable standard of living for the rest of their lives (59 percent and 64 percent), and income varying due to changes in interest rates (57 percent and 61 percent).

Retiree concern about the various retirement risks had remained remarkably stable over time; however, the past two years have shown a marked increase in concern among retirees about many of these issues. Among other issues, retirees are more likely than previously to express concern about inflation (69 percent, up from 58 percent in 2009), having enough money to pay for adequate health care (61 percent, up from 49 percent), having enough money to pay for long-term care (60 percent, up from 46 percent), and maintaining a reasonable standard of living (59 percent, up from 45 percent). Pre-retiree concern about these issues also increased in 2011. Pre-retiree concern spiked in 2003, but had generally declined slowly through 2009.

Discussion

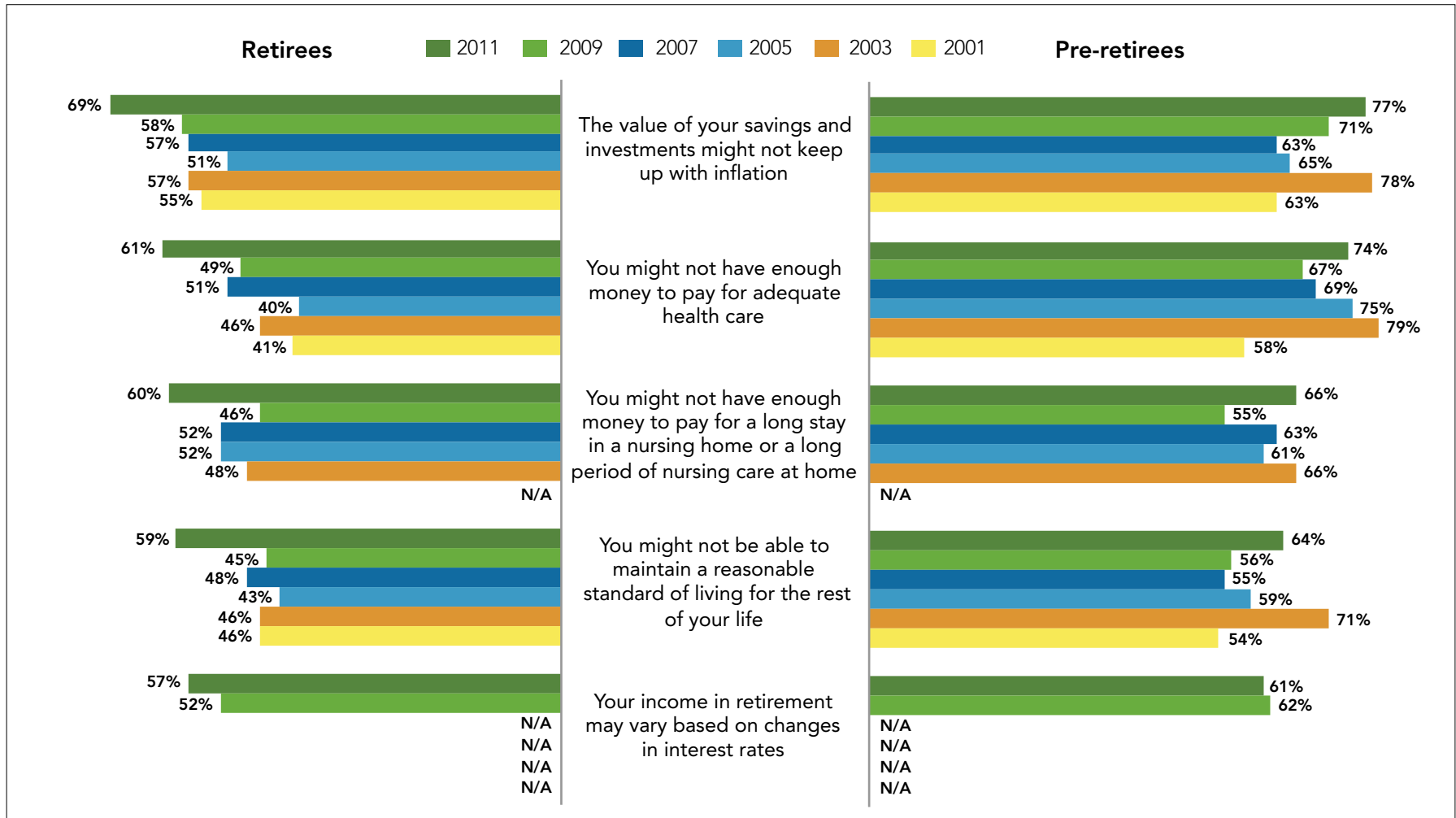
The most important finding of this survey is in the increase in retiree concerns after 10 years of little change. As in all of the prior studies, pre-retirees are generally more concerned about risks than retirees.

The changed levels of concern are accompanied by some changes in behavior but relatively little change in how respondents expect to manage risk, with one exception. More plan to obtain guaranteed life income, although so far barely one-third of retirees and just over one-quarter of pre-retirees have already taken steps to do so.

The areas of most concern for retirees and pre-retirees have consistently been about paying for adequate health care in retirement, not having enough money to pay for a long stay in a nursing home or a long period of care at home, and that the value of savings and investments will not keep up with inflation. The relative positioning of the top three has changed from survey to survey, but these risks are the persistent top three. One of the puzzling aspects of the study findings is that the concerns about paying for health care and long-term care are very similar, even though Medicare pays for a major share of acute health care expenses, and there is no similar general public program to cover long-term care expenses. Medicaid programs pay for a significant part of these expenses, but only for those with very low income and little wealth.

Retirement Risk—A Comparative Snapshot of Concerns

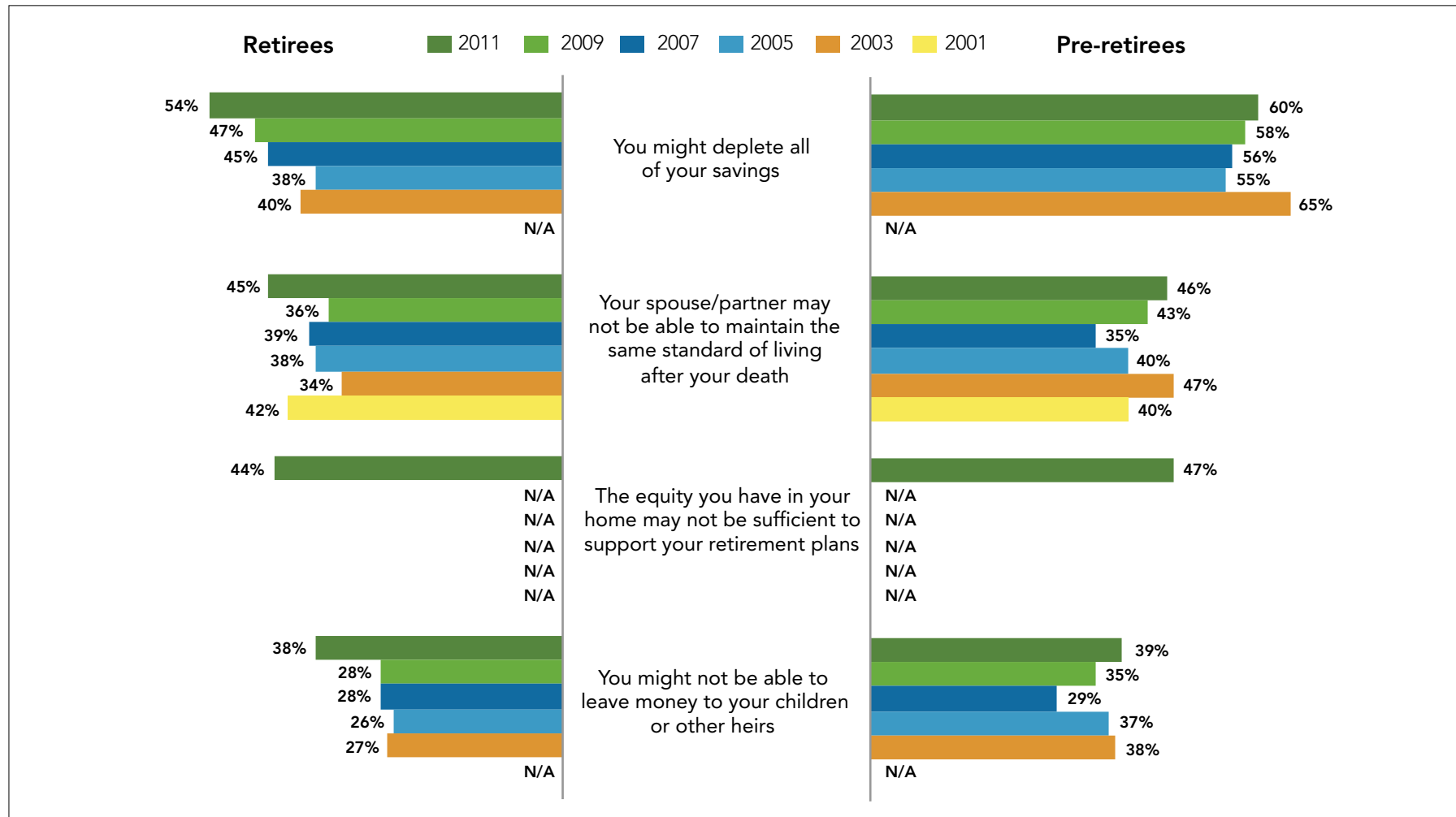
How concerned are you that ... (in retirement)? (Percentage Very or Somewhat Concerned)



Source: Society of Actuaries, 2001-2011 Risks and Process of Retirement Surveys

Retirement Risk—A Comparative Snapshot of Concerns (continued)

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



Source: Society of Actuaries, 2001-2011 Risks and Process of Retirement Surveys

Retirement Risk Strategies—Retirees have made some changes in the strategies they use to manage risk.

Findings

The strategy that retirees and pre-retirees most often say they use or plan to use to manage retirement risks is to eliminate all of their consumer debt, by paying off credit cards and loans (83 percent of retirees, 90 percent of pre-retirees). Risk pooling strategies are used by far fewer retirees (39 percent) or pre-retirees (40 percent).

In contrast to the increasing concern about various retirement risks, retirees and pre-retirees are no more likely than in previous years to report they have used many of the different risk management strategies examined in the survey. However, retirees are more likely than in 2009 to report they have already cut back on spending (62 percent, up from 56 percent in 2009 and 48 percent in 2007), tried to save as much money as they can (61 percent, up from 53 percent in 2009), and purchased a product or chosen an employer plan option that provides them with guaranteed income for life (33 percent, up from 19 percent).

Pre-retirees show little change in risk management strategies, although they continue to say they have already cut back on spending (54 percent in 2009 and 2011, up from 37 percent in 2007).

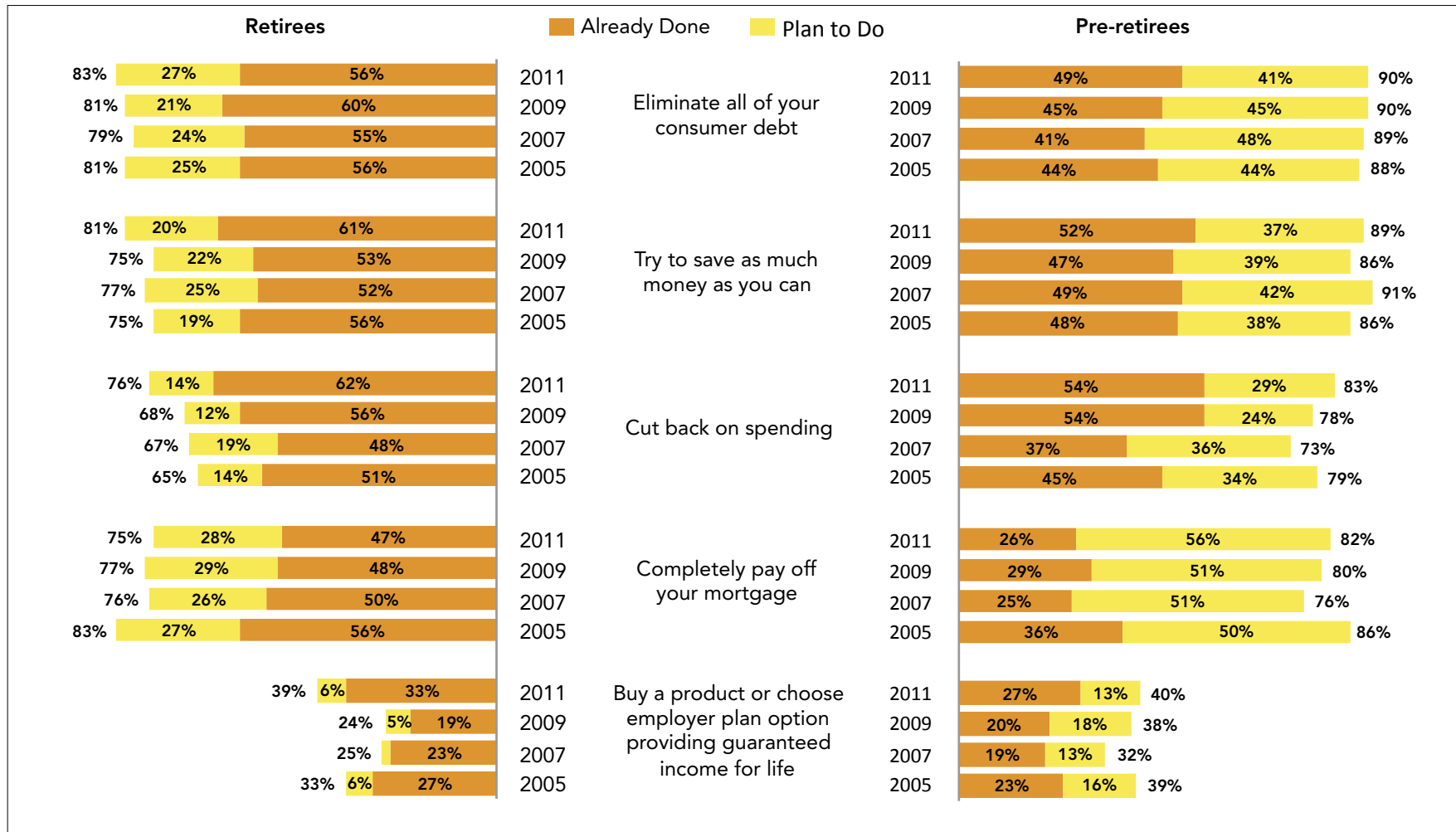
Discussion

Risk management strategies and risk perceptions both show some consistency over time. Throughout the survey, respondents tend to cite short-term measures such as cutting back on spending or going back to work, rather than electing options for lifetime income. One exception is the sharp increase from 2009 to 2011 in retirees who have bought a product or elected an employer plan option guaranteeing income for life.

The Project Oversight Group is concerned that unless this trend continues, many retirees will exhaust their resources and be left with little more than Social Security. This is particularly true for women who live longer. Approximately four in 10 non-married beneficiaries have little income other than Social Security.

Retirement Risk Strategies—A Comparative Snapshot

Please tell me whether you (and your spouse/partner) have done that, plan to do that in the future, or have no plans to do that.



Source: Society of Actuaries, 2005-2011 Risks and Process of Retirement Surveys

Retirement Health Risk Strategies—Strategies for managing health risks have remained stable.

Findings

Almost all retirees (92 percent) and pre-retirees (93 percent) say they maintain or plan to maintain healthy lifestyle habits, such as proper diet, regular exercise and preventive care to protect themselves financially when it comes to health expenses in retirement.

Smaller proportions turn to insurance to help manage this risk. Roughly three-quarters of retirees (79 percent) and pre-retirees (76 percent) report they own or plan to purchase health insurance to supplement Medicare or participate in an employer-provided retiree health plan. Just one in 10 arranges or plans to arrange for care through a continuing care retirement community (12 percent each).

However, just under half of retirees (46 percent) and pre-retirees (45 percent) report they have self-insured or plan to self-insure against health or long-term care risks.

Discussion

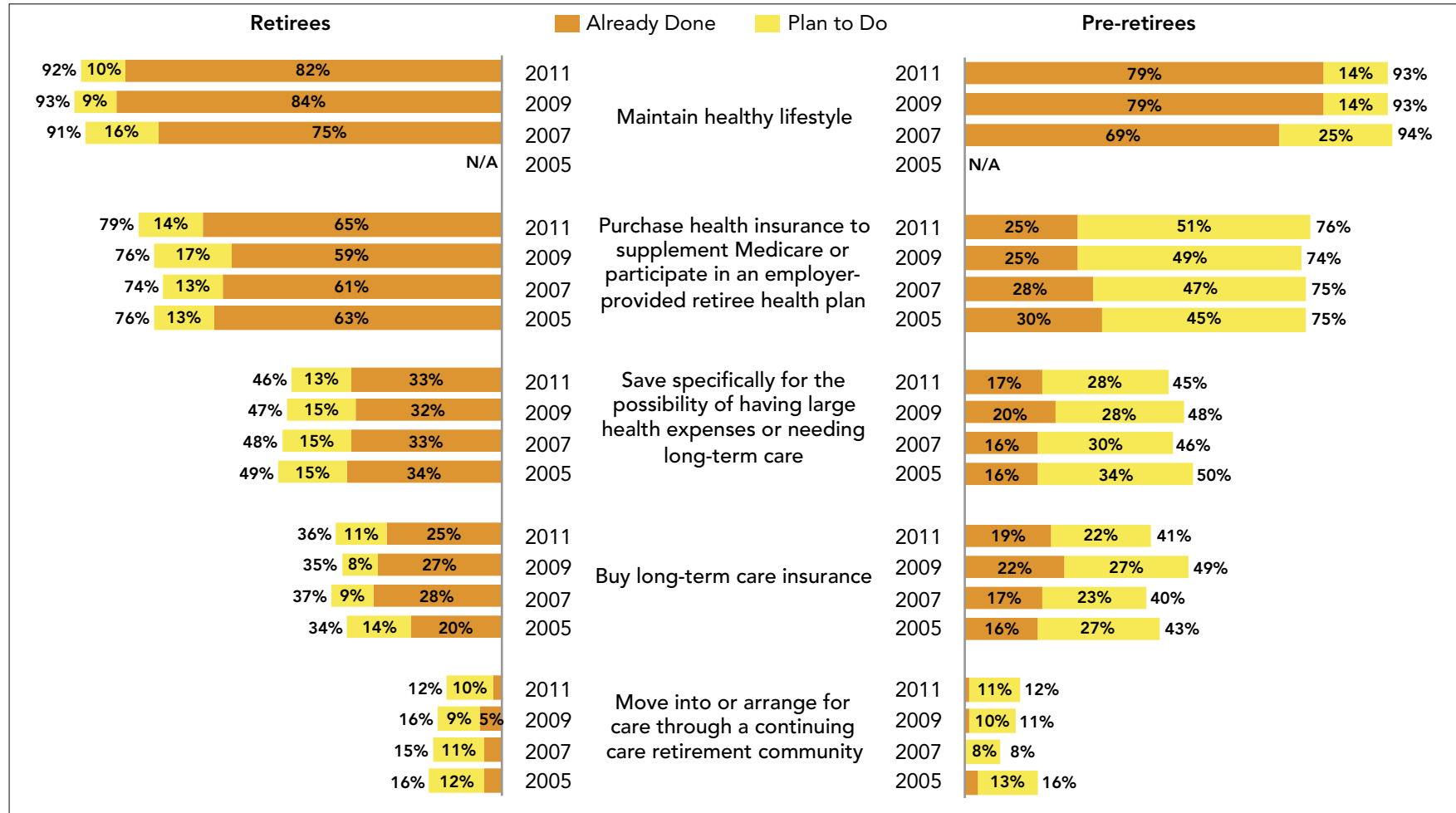
There has been considerable stability across time with both health and financial risk management.

Maintaining healthy behaviors is very important, and while many people say they are trying to do this, there is skepticism about how many effectively carry through.

In 2014, when the Affordable Care Act is scheduled to be implemented, the options for financing health care will change. This will be particularly important for retirees not yet eligible for Medicare. At the present time, those individuals who, prior to their eligibility for Medicare, do not have access to employer-provided health benefits have limited marketplace options, particularly if they are in poor health. This will change in 2014.

Retirement Health Risk Strategies—A Comparative Snapshot

Please tell me whether you (and your spouse/partner) have done that, plan to do that in the future, or have no plans to do that.



Source: Society of Actuaries, 2005-2011 Risks and Process of Retirement Surveys

The large majority think that inflation will have a great deal or some effect on their money needs in retirement.

Findings

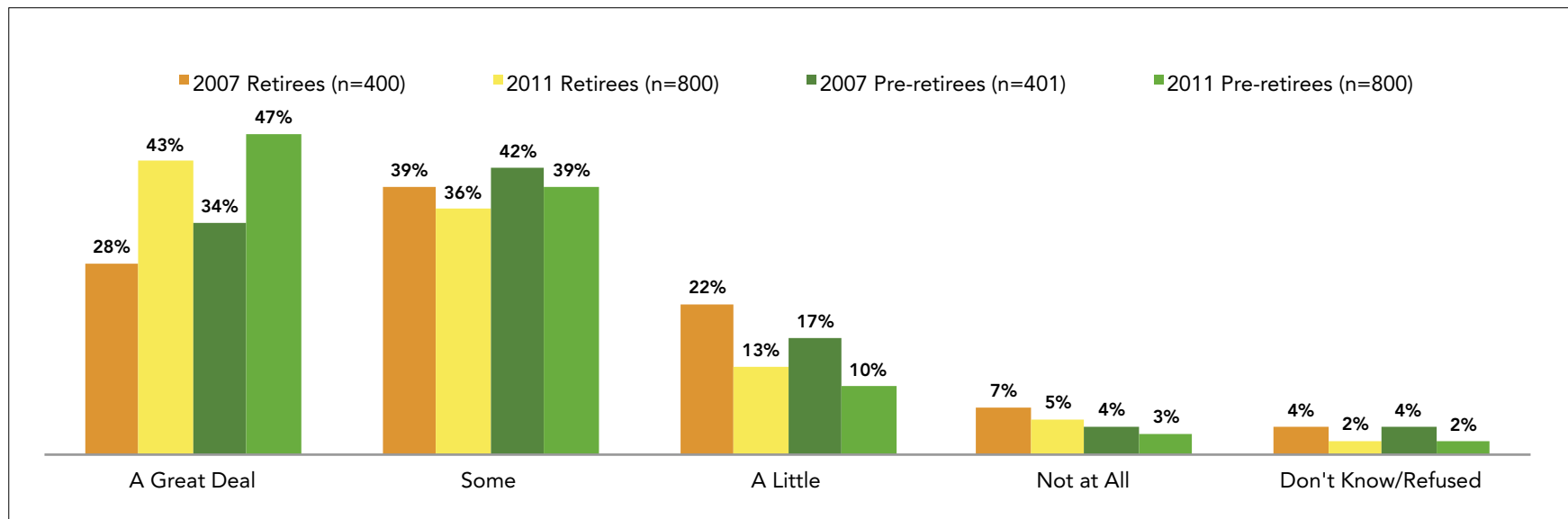
More than four in 10 retirees (43 percent) and pre-retirees (47 percent) think inflation will affect the amount of money they will need in retirement a great deal.

Approximately four in 10 each (36 percent of retirees and 39 percent of pre-retirees) say inflation will have some effect on the amount of money they need, while fewer than two in 10 (18 percent and 13 percent) indicate that inflation will have little or no effect on the amount of money they need each year in retirement.

Discussion

There are several possible reasons for this response. Low interest rates hurt those retirees relying principally on fixed income investments. Although inflation has been relatively low overall for the last few years, health care inflation has been much greater, and many employers and Medicare have increased the share paid for by individuals. Retirees have also been impacted by energy and food cost increases (and fluctuations). Housing values have declined, but this does not impact those who already own their homes unless they expect to utilize home equity to supplement retirement income. There is concern among some that federal budget deficits will lead to much more inflation in the future.

How much do you think inflation will affect the amount of money you will need each year in retirement?



Source: Society of Actuaries, 2007 and 2011 Risks and Process of Retirement Surveys

Most retirees would reduce their spending if the value of their investments were to decline.

Findings

Seven in 10 retirees (72 percent) report they would decrease their spending if the value of their savings and investments were to go down by 10 percent. Three in 10 (31 percent) would cut back a great deal, while four in 10 (41 percent) would cut back somewhat on their expenditures.

Among those more likely to say they would cut back a great deal are women, as compared to men; unmarried retirees, as compared to those who are married; and those with household assets under \$100,000, as compared to those having higher assets.

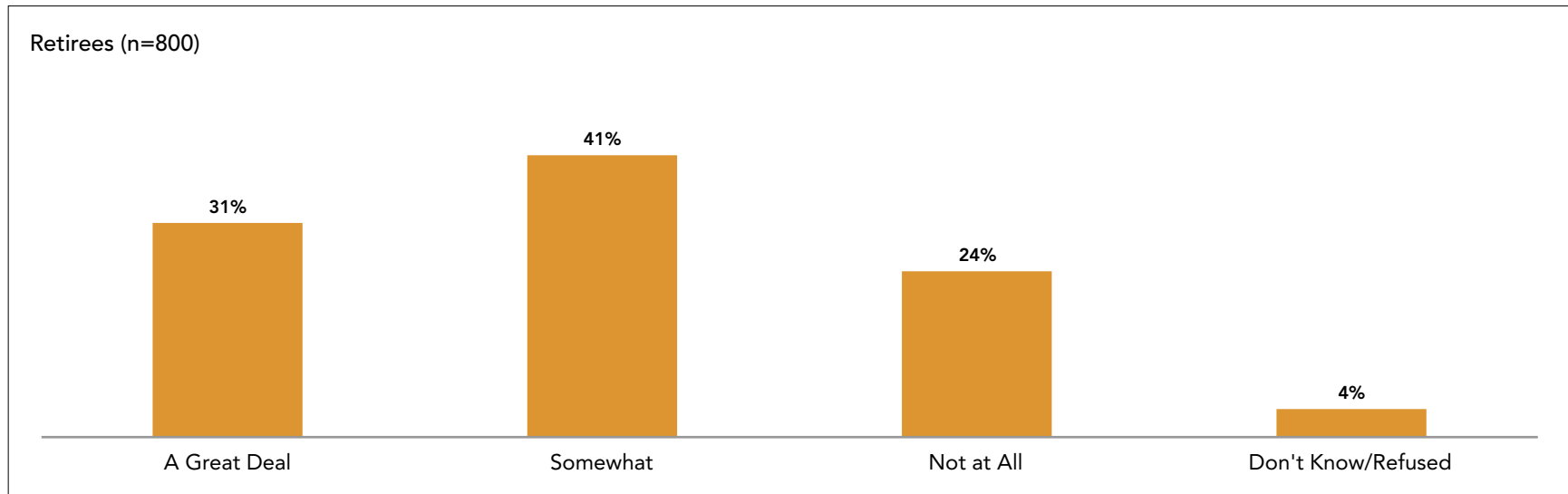
Discussion

Many retirees have already reduced spending. For those living at a modest level, the need for significant cutbacks could have a very adverse effect on their lifestyle.

Housing is the biggest area of spending and, depending on where and how individuals live, offers the biggest opportunity to cut back, but is also one that has a major impact on lifestyles. Some retirees may move in with other family members.

For people living on the edge, there is the danger that they will not get needed medication, medical care and nutrition.

How much would you reduce your spending, if at all, if the value of your savings and investments were to go down by 10 percent?



Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

Research Results from Other SOA Research: The Financial Recovery for Retirees Continues

TO MEASURE THE EFFECTS OF THE DRAMATIC FINANCIAL CONDITIONS on retirees' finances, a joint study by the SOA, the Life Insurance Management Research Association (LIMRA) and the International Foundation for Retirement Education (InFRE) followed up with the respondents of a 2008 study in 2009 and again in 2011. This most recent iteration was conducted close to the time of the 2011 Retirement Risk Survey.

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 2009 and 2011 studies investigated how these same respondents have been reacting to the long-term effects of the 2008 market downturn and the continuing financial upheaval. The motivation for updating this report was to assess how the 2008 financial crisis and economic downturn impacted the original survey participants. Many of these respondents would fall into the "moderately impacted by the economy" group.

The 2008 participants were re-contacted in April 2009 and posed a subset of the original questions via an online survey. The 2011 study was fielded near the end of June 2011, prior to the culmination of the U.S. debt ceiling crisis. This 2011 study 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.

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 fiscal problems in Europe that continue to cause turmoil, led to market declines and instability after the survey was fielded.

THE 2011 STUDY FINDS THAT THE 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.

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The views and opinions expressed in this report are those of the authors and do not necessarily reflect those of the Project Oversight Group nor the SOA as a whole.

TO OBTAIN A COPY OF THE COMPLETE SURVEY REPORT

The 2011 Risks and Process of Retirement Survey report may be obtained from the website of the Society of Actuaries at www.soa.org.

