

# Understanding and Improving Choices at and During Retirement

by **Anna M. Rappaport** | *Anna Rappaport Consulting*

**T**he demographics and workplaces of U.S. workers have changed markedly in the last few years, and retirement is now a major part of the life cycle for many in the United States. Employees have a number of decisions to make at different stages—when they are nearing retirement, at retirement and during retirement. Key decisions are when and how to retire, and these choices are driven by a combination of public policy, employer programs and individual preferences.

While labor force participation at higher ages has risen over the last decade, retirement ages and public policy have not kept up with increasing life spans. Many people would like to move incrementally from full-time employment to full-time retirement, but there are relatively few institutional supports or programs for such arrangements. Many individuals who want to phase into retirement are mostly figuring it out on their own.

Employer-sponsored retirement programs have shifted from defined benefit (DB) plans, retiree health plans and often supplemental savings to defined contribution (DC) plans with much fewer retiree medical offerings. Many retirement experts are concerned about employees who do not have access to or elect not to participate in these DC plans. They are also concerned that many employees and plan participants

do not plan for paycheck replacement during retirement or for managing retirement risks.

Households at some point must make decisions about when to retire, when to claim Social Security, whether to gradually change work arrangements, how to obtain and handle health benefits, and how to use assets during retire-

## AT A GLANCE

- Key employee retirement decisions are when and how to retire as well as when to claim Social Security, and these choices are driven by a combination of public policy, employer programs and individual preferences.
- The “traditional” linear life cycle for workers in the second half of the 20th century in which they pursued education, then worked and later retired has changed. Many people now have periods when they are in and out of work. They may have multiple careers and pursue education at different times.
- Employers often provide the majority of financial security (other than Social Security), and a defined contribution (DC) environment requires more individual planning. Plan sponsors must decide how many resources they should devote to planning, helping retirees and maintaining a relationship with them.

ment. They may also need to make decisions to respond to changes (e.g., financial, lifestyle, health, etc.) and the development of limitations (e.g., mental and physical) during retirement.

To provide background on these issues, this article will draw on a number of resources from the Society of Actuaries (SOA) including *Decision Briefs*, the *Late in Life Decision Guide*, consumer research and essays. It will also draw on insights and information about employer priorities.

**Context**

Major demographic and societal shifts have occurred in the U.S. and elsewhere. How people work has changed, with many working remotely or in a hybrid arrangement since COVID-19. Talent shortages abound and are an important factor in business decisions. New patterns of work are emerging that respond to employee interest in flexibility, more rapid introduction of innovations and new technologies. Employers have steadily reduced their risk bearing in employee benefits over many years.

The age distribution of the U.S. population (and in many countries) is shifting. The percentage of older individuals is increasing—People are living longer and spending a longer time in retirement. Fewer people are marrying in the U.S., people are having fewer children and more people are living alone. The population is more diverse by race, ethnicity and family structure.

These trends affect employers in different ways, including who they employ and the employment options they

**TABLE I**

**Civilian Labor Force Participation Rates at Ages 55 and Up in Selected Years—By Gender**

Group	2001	2011	2021	2031 (projected)
Men—55 to 64	60.4%	64.2%	64.6%	68.2%
Men—65 to 74	19.7%	26.4%	25.8%	30.7%
Men—75+	5.2%	7.5%	8.6%	11.1%
Women—55 to 64	53.2%	59.5%	59.2%	64.8%
Women—65 to 74	15.6%	21.8%	21.6%	26.7%
Women—75+	3.3%	5.4%	6.4%	8.9%

*Source:* Downloaded from U.S. Bureau of Labor Statistics website on December 28, 2022. Note provided on website states that rates had been updated on September 8, 2022.

offer. As jobs and employment options change, retirement plans and other employee benefits also may change.

Public policy response to the changing environment is mixed. While Congress has passed two major bills to improve the DC system,<sup>1</sup> public policy—which affects retirement, employment, housing options, health care and much more—has not focused much on the longer term demographic and workplace trends. It has not responded to a range of Social Security and Medicare issues. However, divided opinions make progress difficult.

While this paper focuses more on decisions in the context of current practice, both policy makers and businesses are encouraged strongly to focus on the changing environment and adapt their

retirement practices and work options accordingly.

**The Employee Life Cycle**

Today’s employee life cycle varies by household, and the retirement system needs to adapt to that variability. As life spans continued to grow, retirement ages have not risen and periods of retirement have increased. This issue is complex because average life spans differ by race and ethnicity as well as economic status.

The “traditional” linear life cycle for U.S. workers in the second half of the 20th century was to grow up and pursue education/credentials, work for many years and ultimately retire. The basic idea was that consumption would be leveled over the second and third period by saving for retirement

and then workers would consume those assets during retirement. But in reality, many people have periods when they are in and out of work, and they may have multiple careers and pursue education at different times.

Adults who were primary or full-time caregivers during part of their adult life may have entered and left the paid labor force multiple times. Women were much more likely to have periods out of the labor force.

### Labor Force Participation

Labor force participation rates at higher ages have increased since 2001 and are projected to further increase in the next ten years (Table I).

**TABLE II**

### Information Relied on for Retirement Planning

Source of information	Relied on a great deal or to some extent	Relied on a little	Not at all
Your own instincts	72%	21%	7%
A financial advisor	41%	14%	45%
Communication from your employer	33%	27%	41%
Retirement planning software, calculators or tools	32%	23%	46%
Family, friends or co-workers	31%	33%	36%
Books, articles, blogs or other written work	30%	28%	43%
Seminars or webcasts	22%	22%	56%
Television or radio	12%	23%	65%

Source: Figure 2 from *Disconnected: Reality vs. Perception in Retirement Planning*. Stanford Center on Longevity, October 2022.

### The Role of the Employer

Employers play a major role in the financial security of many longer term full-time employees. Earnings are the only or major source of income for many employees. Individuals with well-paying long-term jobs usually also have access to good employee benefits, including health insurance, retirement savings, disability and death benefit protection, which are in addition to benefits provided by Social Security.

During the era of DB plans, employers often maintained relationships with their retirees and encouraged retirement at defined times. Today, larger employers are still primary providers of retirement resources. Since employers often provide the majority of financial security (other than Social Security) and a DC environment requires more individual planning, plan sponsors must decide how many resources they should devote to planning, helping retirees and maintaining a relationship with them. Another factor in this decision is the fact that many employers have outsourced or automated various benefits management functions, resulting in less personal interaction.

A recent Stanford Center on Longevity study<sup>2</sup> on retirement planning and decision making found that while the employer was a significant source of information for one-third of the 2,000 respondents, employers have a major opportunity to increase their influence on retirement planning (Table II).

### The Planning Process and Time Horizon

#### Research

SOA research offers important and sometimes troubling insights into the financial and retirement planning process throughout the life cycle, including the following studies.

- The report *The Journey Through Retirement*<sup>3</sup> brings together results from more than 20 years of biennial postretirement risk surveys, focus groups with recent retirees and with individuals retired 15 years or more, and the results of multifaceted research on experiences of individuals age 85 and over. SOA has focused on financial priorities and planning horizons for all generations in two rounds of research comparing and contrasting the views of the different generations.
- The *Financial Perspectives on Aging and Retirement*

*Across the Generations*<sup>4</sup> research is very helpful for putting the retiree research in perspective and comparing some key items with other generations.

The *Generations* research reinforced the importance of thinking about financial fragility.<sup>5</sup> Some survey respondents at all ages had very short planning horizons, and their major focus was on paying bills month to month. Debt was a major financial issue for some. Millennials were most likely to be financially fragile, and the percentage declined with age. Thirty percent of Millennials exhibited high financial fragility vs. 9% of the Silent Generation. The immediate retirement planning issues for the financially fragile are generally different from the issues of those who are stable—They generally do not have significant retirement savings and are likely not in a position to save much for retirement until they are stable.

### ***Employer Support***

Employers may be able to address these challenges through financial wellness programs, which wrap around traditional retirement planning and address individuals' personal situations. A financial coach or specialized help may be invaluable in getting the financially fragile—who may end up relying primarily on government programs in retirement—to a better position. In addition, support programs should consider the needs of diverse groups.

Types of retirement planning support provided by employers include content, tools, and guidance or advice. Financial tools (e.g., software and retirement calculators) can provide critical support to make planning feasible. Retirement planning is complex, involves risk and uncertainty, covers many issues and covers money inflows and outflows over a long period of time. Most individuals are not in a good position to figure out which tools match their needs.

SOA has published several reports looking at financial planning software and analyzing how it handled postretirement risks as well as the differences and quality control in the software. Many software tools are available, and they change frequently. Plan sponsors can provide an important service by determining which tools suit employee needs and making them available. The report *Retirement Planning*

*Tools*<sup>6</sup> is a good place for employers to start. This 2019 study provides an overview of the landscape and discusses three levels of tools: simple, intermediate and advanced retirement calculators. It covers what can be expected from each level, what data is likely to be requested and what information the tool is likely to give to the user. It also discusses the basic principles of different types of retirement planning calculations, quality control and considerations when selecting and using tools. It can be useful to both plan sponsors and individuals. Plan administrators and wellness providers are also likely to provide tools to their clients. Planning support and tools offered may be considered in choosing these providers.

The SOA report *Investment and Retirement Advice: A Guide for Employers*<sup>7</sup> offers information on a variety of different ways that plan sponsors can influence retirement decisions and choices. The results of SOA consumer research indicate gaps in planning and offer opportunities for employers to improve their offerings and to provide support and helpful messages to employees. This research allows employers to have a practical understanding of what average employees and retirees know and do as well as how they prioritize. Some findings from the research that may help employers together with suggestions for addressing the findings are shown in Table III.

### **Planning: Important Decisions as Employees Reach Retirement**

Employees in the U.S. have a choice about when they will retire—at least in theory. Mandatory retirement is prohibited by law except in a few limited circumstances where public safety or the public good is involved. For purposes of this discussion, it is assumed that retirement is a choice except where individual circumstances push the individual into retirement.

The SOA publication *Managing Post-Retirement Risks: Strategies for a Secure Retirement*<sup>8</sup> discusses three groups of postretirement risks: economic risks, personal planning considerations, and unexpected or unpredictable events. It provides descriptions of the risks, which are often overlooked in planning, and a discussion of general methods of managing them.

SOA offers a series of *Decision Briefs*<sup>9</sup> that help individuals understand the decisions that must be made at the time of and after retirement. Each brief focuses on a specific decision area. The briefs identify questions to ask, offer considerations and discuss trade-offs. Specific briefs are noted in Table III.

*When* and *how* to retire are the most consequential retirement decisions that many people will make. However, they may also need to define *what* retirement means for them. It may mean leaving a longer term job, leaving the labor force entirely or shifting away from work to other activities as a primary focus with some work included. Key questions that employees need to ask as they consider these issues include the following.

#### **Financial Issues**

- Can I afford to retire?
- How can I turn my assets into regular income that will replace my paycheck? Is this the best strategy for me? How do I coordinate this income with Social Security?
- Will I need to reduce my spending if I retire, and by how much? How can I reduce my spending?
- When should I claim Social Security?
- Am I able to manage my investments? What sources of advice do I have?
- Will my employer allow me to leave funds in its DC plan, or must I withdraw them?

#### **Where to Live**

- Can I afford my home, and can I manage staying there? Do I need to modify it?
- Should I refinance or pay off my mortgage? Would a reverse mortgage be a good idea for me?
- Do I want to move to a better climate or to be nearer to adult children, my parents, other family or friends?
- Will downsizing and/or living in a less expensive area work for me?
- If I am still working, can that job be done remotely?
- Do I want to have more than one home and, if so, how do I want to arrange that?

#### **When and How Can I Retire?**

- What does retirement mean to me?
- When do I want to retire, and do I want to continue some work?
- What activities will bring the most meaning to my life? What retirement dreams do I have?
- If I am pushed out of a job after age 50, will I retire, or will I seek another job? What skills and contacts do I need to keep up to date?

#### **What About My Health Care?**

- What will my health care cost, and how can I afford it?
- After age 65, what Medicare options will be best for me?
- Before age 65, can I continue in an employer-sponsored plan, or will the health care exchanges work for me?
- Will my location and health care plan offer access to the care I want and need?

#### **What Will My Spouse or Partner Do?**

- If I have a partner, will the partner also be retired?
- If the partner is not retired and I am, how will that affect me?
- What interests do we have in common, and what interests are different?
- How can we meet both of our needs?

#### **Planning for Future Changes**

- For couples, what will happen to the survivor when one partner is no longer there?
- Do I have a plan for securing and financing support in the event of future cognitive or physical decline?
- Will long-term care insurance help me?
- Do I have parents or other family members who are likely to need help soon?

#### **Looking Forward**

The types of decisions that individuals need to make as they retire and in retirement will not change. Planning methodologies need to accommodate uncertainties, and plans will re-

**TABLE III: RESEARCH AND RESOURCES ON RETIREMENT ISSUES**

Issue	Research Finding	Ideas for Employers and Related Issue Briefs
Planning horizon	Some people have very short planning horizons; even in retirement, some individuals are planning only for a few years.	Encourage longer term planning, and help with tools, groups and/or a coach to support such planning.
Scope of planning	Many people plan for expected cash flows only and not unexpected expenses.	Provide education and tools to help encourage more complete planning.  Consider group sessions and/or a financial coach to help individuals with planning.
Focus on risks	Some individuals focus on a variety of risks whereas others plan to deal with problems as they arise. Personal and societal events such as a stroke, accident, death of a spouse, divorce, major storm, pandemic or an investment market crash can turn a retiree's situation upside down.	Offer retirees benefits, financial products that can be self-pay, education and/or advice with regard to risks. Encourage employees and retirees to be risk-aware and take action.  <b>Resources:</b> <i>Managing Post-Retirement Risks: Strategies for a Secure Retirement</i> . This publication offers ideas for strategies risk by risk. <i>Decision Briefs</i> focuses on specific risks.
Investing assets	SOA <i>Generations</i> research indicated that few respondents were very comfortable managing investments. Other research shows gaps in basic financial literacy.	Selection of investment approach, use of default investment options, target-date funds and managed accounts. The big question is whether employees can leave their assets in employee benefit accounts after retirement. A second question is whether different investment options are more suitable postretirement.  <b>Resource:</b> <i>Treating Asset Allocation Like a Roadmap</i>
When to retire	SOA research consistently indicated that preretirees wish to retire later than workers have in the past. Many retirees who had not lost jobs indicated that they had been pushed into retirement by health issues, need for caregiving or job-related issues.	Help employees understand choices about when to retire. Provide an environment where employees feel secure discussing and getting advice about retirement plans. Offer employment options that work well for individuals nearing retirement.  <b>Resource:</b> <i>Big Question: When Should I Retire?</i>
How to retire	Many preretirees say they would like to retire gradually, but more retirees say they retired all at once.	Offer flexible work options or project-based opportunities to enable employees who wish to retire gradually to move into retirement in steps. Gradual retirement options enable a flexible workforce, help with employee mentoring, preserve and transfer intellectual capital, and do not block promotion paths. Pools are one way to implement such options.
When to claim Social Security	Most common claiming age is 62, but many people would be much better off financially by claiming later.* The difference in income increases by claiming age, and it also affects survivor benefits.	Plan sponsors can provide employees information about claiming, how to get Social Security earnings history, a benefit estimate from Social Security and how to integrate Social Security into the big picture. Couples need to work together on claiming strategies.  <b>Resource:</b> <i>Deciding When to Claim Social Security</i>

\**Viability of the Spend Safely in Retirement Strategy*. This report examines Social Security claiming and demonstrates that claiming late is a very good default strategy. The report is available at [www.soa.org/resources/research-reports/2019/viability-spend-safely/](http://www.soa.org/resources/research-reports/2019/viability-spend-safely/).

**TABLE III** (continued)

Issue	Research Finding	Ideas for Employers and Related Issue Briefs
Where to live	This is a major decision with both financial and lifestyle implications. Housing is the area of largest spending for retirees. Many middle-income older individuals have most of their assets (except for the value of Social Security and DB plans) in their house.	There are huge variations in housing costs by area, type and size of housing. Help employees with resources to answer questions about choosing and financing housing in retirement, including tools to model alternative scenarios. Help employees understand diversification and the role of housing in their asset portfolio.  <b>Resource:</b> <i>Where to Live in Retirement</i>
Using assets during retirement	SOA research indicates that many retirees prefer to hold on to their assets rather than planning to use them to replace a paycheck. The most common method of withdrawing assets from retirement plans is the required minimum distribution.	The success of a retirement program depends on both building enough assets and using them well in retirement. Running out of assets is an important risk. Where DC plans are the primary retirement vehicle, the employee makes choices about how to use assets in retirement. The plan sponsor must decide what options to offer, what defaults to use, and whether to encourage and offer lifetime income and/or other longer term payout options. This is an evolving area.  <b>Resource:</b> <i>Designing a Monthly Paycheck for Retirement</i>
Choosing health insurance	The availability and cost of medical insurance can influence retirement decisions before Medicare eligibility. Decisions about Medicare and supplemental coverage are complex and must be made each year.	Offer health savings accounts to accumulate funds. Allow retiree access to continued medical coverage in an employer-sponsored program after retirement. This can be subsidized or retiree-pay-all. Decide whether dependents will be eligible and if care outside of the home country will be covered. Offer help in choosing options.  <b>Resource:</b> <i>Securing Medicare and Other Health Insurance for the Retirement Journey</i>
Planning for long-term care	A major long-term care event can be catastrophic. While the majority of individuals will require some long-term care, only a relatively small group will require major care for a long period. Such care can cause them to run out of assets and may leave a survivor in a very bad financial situation.  Research shows awareness of long-term care needs but little action to plan for meeting them.	Offer a group long-term care insurance program or other support for long-term care. Offer information and education with regard to planning for long-term care.  Medicaid provides financing for care for individuals with very low income and assets, but households with resources too large to qualify may be in a very difficult position.  <b>Resource:</b> <i>Financing Long-Term Care Needs</i>
Planning for changes during retirement	Most people experience changes during retirement, often leading to physical and/or cognitive decline. Couples generally become singles.	Retirees often do not plan for the changes later in life or the additional help needed during periods of decline. Employers can maintain relationships with retirees and support such planning or, if not, give retirees information about it when they retire.  <b>Resource:</b> <i>Managing Late-in-Life Decisions</i>

quire periodic updates. The societal and personal forces driving decisions may change. Examples include the following.

- Tools are likely to improve and change with further development of technology and artificial intelligence. Evolving tools may encourage and support better planning.
- Retirement options—including options for work as part of retirement—may change as society adapts to population aging.
- The situation of retirees could change if Social Security benefits are reduced.
- Environmental risks such as pandemics and climate change may disrupt retirement plans.
- Public mandates for retirement plan disclosures and benefit plan provisions may change.
- Cybersecurity challenges may impose increasingly stringent requirements around software and plan recordkeeping and, in turn, change the systems that participants must interact with.

Planning tools and workshops should be designed with the understanding that while they are primarily focused on the current environment, they will need to be adjusted to meet changes as they occur.


## Conclusions

The biggest retirement program decisions for employers are how much and what kind of support to offer for retirement security, planning and during retirement. The next big decision is where to focus and how to allocate the support. Employers have a variety of opportunities and options. Employees need to make decisions in the period leading up to retirement, at retirement and during retirement. Some are about money and risk, and others are about life choices. In a world dominated by DC plans, individual responsibility for

## AUTHOR



**Anna M. Rappaport, FSA, MAAA,** is an actuary, futurist and specialist in retirement issues. She is a past president of the Society of Actuaries (SOA) and chairs the SOA Committee on Post-Retirement Needs and Risks.

planning and the need for support have increased markedly. Improved planning offers the potential for improving lives during retirement. 

## Endnotes

1. The Setting Every Community Up for Retirement Enhancement (SECURE) Act, enacted in 2019, and SECURE 2.0, enacted in 2022.
2. <https://longevity.stanford.edu/disconnected-reality-vs-perception-in-retirement-planning>.
3. [www.soa.org/498452/globalassets/assets/files/resources/research-report/2021/research-journey-retirement-report.pdf](http://www.soa.org/498452/globalassets/assets/files/resources/research-report/2021/research-journey-retirement-report.pdf).
4. [www.soa.org/resources/research-reports/2021/generations-survey](http://www.soa.org/resources/research-reports/2021/generations-survey). The results for this 2021 survey are shown in multiple reports—an overall report, a separate report focusing on differences by race and ethnicity, a report on financial fragility and a report on Gen X. An earlier *Generations* survey was done in 2018.
5. A topic report from the *Generations* survey, *Exploring Financial Fragility Across Generations, Race and Ethnicity*, offers insights into financial fragility and its prevalence. [www.soa.org/4aa67c/globalassets/assets/files/resources/research-report/2021/2021-financial-fragility.pdf](http://www.soa.org/4aa67c/globalassets/assets/files/resources/research-report/2021/2021-financial-fragility.pdf).
6. Joint project with Financial Finesse. [www.soa.org/4a87fe/globalassets/assets/files/resources/research-report/2019/2019-retirement-tools.pdf](http://www.soa.org/4a87fe/globalassets/assets/files/resources/research-report/2019/2019-retirement-tools.pdf).
7. [www.soa.org/4937ac/globalassets/assets/files/research/research-2015-11-retirement-advice-guide.pdf](http://www.soa.org/4937ac/globalassets/assets/files/research/research-2015-11-retirement-advice-guide.pdf).
8. This is the fourth edition of the SOA's Post-Retirement Risk Chart. [www.soa.org/resources/research-reports/2020/post-retirement-strategies-secure-chart](http://www.soa.org/resources/research-reports/2020/post-retirement-strategies-secure-chart).
9. [www.soa.org/resources/research-reports/2012/research-managing-retirement-decisions](http://www.soa.org/resources/research-reports/2012/research-managing-retirement-decisions).

## International Society of Certified Employee Benefit Specialists

Reprinted from the Third Quarter 2023 issue of *BENEFITS QUARTERLY*, published by the International Society of Certified Employee Benefit Specialists. With the exception of official Society announcements, the opinions given in articles are those of the authors. The International Society of Certified Employee Benefit Specialists disclaims responsibility for views expressed and statements made in articles published. No further transmission or electronic distribution of this material is permitted without permission. Subscription information can be found at [iscebs.org](http://iscebs.org).

©2023 International Society of Certified Employee Benefit Specialists



pdf/923