Inflation, health care expenses and how to pay for long-term care remain top concerns of both recent and longer term retirees. Employers can help employees prepare for those risks, as well as some other very real risks retirees don’t think as much about.

by Anna M. Rappaport

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The Society of Actuaries (SOA) has conducted research since 2001 to understand how retirees and near retirees perceive, prioritize and manage postretirement risks. In 2015, the SOA focused on longer term retirees and conducted focus groups and in-depth interviews to study individuals who have been retired 15 years or more in the United States and Canada.

The research provides insights into how well these retirees are doing as well as their plans. This article focuses on those longer term retirees and summarizes lessons learned and key research findings together with a discussion of the challenges and opportunities those challenges present to employers. Areas researched include planning, shocks, asset and risk management strategies most commonly used, biggest concerns and lessons learned from parents.

What Retirees Said About Planning and Risks

The 2015 SOA postretirement risk survey shows that risk concerns and management generally are consistent with prior surveys. The 2015 research shows that longer term retirees have similar concerns as all retirees. The top concerns with regard to postretirement risks were inflation, health care expenses and paying for long-term care. These have been the top concerns over repeated iterations of the survey, although the priority of concern has changed. This was the eighth biennial survey. Retirees and preretirees showed relatively little concern about other important risks such as fraud.

Risk Management Strategies

As in prior years, reducing spending was the main risk management strategy. In the focus groups, some longer term retirees indicated they spend based on their “needs” today vs. earlier spending based on “wants.” As in prior surveys, additional risk management strategies included increasing savings and paying off debt. Also as in prior years, risk protection products, other than health insurance, were not used very often.

“Retirement Planning” Means Different Things to Different People

In three different sets of focus groups, the SOA heard from individuals for whom planning meant a cash-flow forecast that focused on their “regular bills” and “income.” If they could pay their regular bills, that was their goal. For some of them, it was short-term and not long-term planning.

In addition, when the issues of risk and uncertainty were raised, the response from some was “I will deal with it when it happens.” This is very different from comprehensive financial planning for retirement.

Many People Do Not Want to Spend Down Retirement Assets

The SOA has been very interested in the question of how one might systematically use assets over the retirement period and not have them used up too quickly. However, some focus group participants indicated they want to hold on to their assets. They do not embrace any long-term systematic “spend-down plan,” and they are withdrawing the required minimum distribution (RMD) from their tax-protected retirement funds only because they are required to do so. Findings on this point were similar in 2015 and 2013.
Lessons Learned, Challenges and Opportunities

There are gaps in personal planning that are bigger than researchers expected. Most of the focus group participants do not plan for the long term, for nonroutine expenditures or for common risks that may be expected during retirement; however, the impact is softened for those with a goal of not spending down assets. The gaps seem to be similar between long- and short-term retirees.

The big challenge is how to improve personal planning and encourage more systematic focus on a broader range of risks. The employer has an opportunity to help with education, tools, materials and, possibly, advice.

What Retirees Said About Shocks

Planning generally focuses much more heavily on the expected than the unexpected. But life is a mixture of both, and how well people handle the unexpected is a big determinant of how well they will do overall. Once people have been retired for 15 years or more, there is a substantial chance that they will be exposed to shocks. Retiree experience with regard to shocks and the unexpected was a major focus of the SOA research in 2015, both in the focus groups and the risk survey. Numerical findings are from the survey and include long- and short-term retirees.

Here are some of the key findings:

- More than one in ten who experienced shocks had to reduce spending 50% or more.
- More than one in three who experienced shocks had their financial assets reduced by 25% or more.
- About three in four retirees think that they were able to manage somewhat well within their new financial constraints.
- When retirees were asked about financial shocks and unexpected expenses, the two most frequently mentioned items were home repairs and dental expenses.
- Multiple shocks were a much bigger problem than single shocks. Nineteen percent of retirees and 24% of retired widows experienced four or more shocks during retirement. In contrast, 28% of retirees and 13% of retired widows had not yet experienced any shocks.
- The problems were much greater for lower income retirees. Twenty-nine percent of retirees with annual income of less than $35,000 had experienced four or more shocks compared with 10% of retirees with income of $75,000 or more. The experiences and perceptions of retirees were quite different by income level.
Retirees were able to make adjustments and deal with unexpected expenses in a number of areas but not in major long-term care events requiring paid long-term care or in divorce after retirement.

Those who purchased a Medicare supplement in addition to Medicare usually had their health care bills well covered. Of course, they typically pay Medicare Part B and D premiums in addition to the supplement premium. In contrast, dental expenses generally are not covered by Medicare, Medicare supplements or Medicaid. So, among people with Medicare supplements, a number of respondents reported dental expenses as unexpected, but health care costs usually were not an issue.

Long-term care is a major shock, and many people do not have insurance. Quotes include perspectives of those who have and those who do not have long-term care insurance.

Lessons Learned, Challenges and Opportunities

Retirees are resilient and pragmatic. Many of them are willing to make substantial adjustments in spending. Many are managing very well, and overall they are doing better than some of the project team had expected.

While retirees are resilient, there are a number of scenarios for which people are not well prepared. Both employers and individuals can contribute to the effort to better prepare individuals to deal with shocks. Elements of a program can include planning tools, education and risk protection products. Employers can offer access to attractive products for purchase.

What Retirees Learned From Their Parents

Research with longer term retirees brought in the experience of parents and its impact on planning. In focusing on shocks, the research showed three areas where respondents reported that their parents were more likely to have had the experience vs. their own experience: illness and disability, incapacity and going on Medicaid. Parents have lived longer, and these areas portend the future for many retirees. It is not uncommon for people to underestimate the likelihood that these things may happen to them.

In contrast, retirees reported higher frequency of major home repairs/upgrades and dental expenses than was reported for their parents. The figure shows how retirees’ experience with shocks differs from that of their parents.

Some of the retirees said they were seeking to avoid what happened to their parents. Some learned thrift and conservatism from their parents.

Lessons Learned, Challenges and Opportunities

More challenges are likely in the future as people age. Retirees are more informed about parents’ health challenges than their finances. Many people are not expecting some of the challenges that they are likely to face. Focusing people on their parents’ experiences can help them plan more effectively for their own future retirement.

Employers can help retirees be better prepared for what is to come by encouraging more savings and offering education and tools and risk management products.

Summary: What Should Be Done

There are actions that can be taken to improve retirement security by individuals, their advisors and employers.

- **Better individual planning is important.** For retirees who try to hang on to their assets and then focus on planning for regular monthly expenses, the assets are often their main risk management cushion. This group might do more formal risk management planning, but it is not clear how much that would help.
• Everyone needs an emergency fund, regardless of what else is done. But the research shows widespread inadequacy of such funds. Employers can help employees think about the need for emergency funds. Of course, the emergency fund needs to be immediately accessible.

• Everyone needs to remember that things change over time, both in expected and unexpected ways. Planning should provide for both the expected and the unexpected, and it should be longer term. Three big issues to address are the provision for the unexpected, thinking about changes and planning for a longer period of time in retirement.

### How Employers Can Help Employees Improve Planning

Employers have credibility, and employees are more likely to save when they have access to an employer plan. They are also more likely to pay attention to education and important messages from an employer. Employers can support planning and encourage employees to plan by providing tools, information and direct support for planning. They can also make planning easier depending on the way their plan is structured.

A number of things merit attention:

• Making a retirement plan involves many decisions. Some of these decisions are quite complex and irrevocable. The employer can help with information, software tools, customized guidance and maybe even professional advice.\(^6\)

• Special-purpose software tools may be useful for specific decisions.
sions. For example, for Social Security, the Consumer Financial Protection Bureau software offers a good way to understand the impact of claiming at different ages. Some software is free, and some is sold or leased to the plan sponsor or administrator for use by employees. An employer may be concerned about recommending software from outside sources, but governmental sources and neutral third parties may be acceptable. Another example of planning software that can help employees get organized is the Department of Labor’s “Taking the Mystery Out of Retirement Planning.”

- Employers can help employees focus on the basics, such as the importance of planning for the longer term. Financial wellness programs are a good place to start. Employers can tell employees about life expectancy, the uncertainty surrounding it and the need to plan for the rest of life. The basics are important and often overlooked. Employers can remind employees that every situation involves uncertainty and that every retirement involves risks. At a minimum, it is desirable to recognize risks and uncertainty, but many personal plans do not.
- Employers can help employees and retirees deal with the unexpected. They can offer information about risk management and provide access to products to help. Long-term care, disability, investment losses and fraud, for example, are all much less certain and more costly than home repairs and dental costs. And if they happen, they are harder to handle. Employers can play a key role in helping employees learn about the importance of planning and the need to focus on the long term.

All in all, the employer can play an extremely important role in helping to educate employees about the needs and risks associated with retirement and in helping them deal effectively with the risks.

Endnotes

1. The full reports from the survey and the focus groups are available from the Society of Actuaries’ website. Survey results include all questions and breakouts by income, health status and other groupings. A special report on shocks is one of several additional reports that were to be added in late 2016. These studies can be downloaded from the Committee on Post-Retirement Needs and Risks web page, www.soa.org/research/research -projects/pension/research-post-retirement-needs-and-risks.aspx.

2. The focus groups were supplemented by in-depth interviews with caregivers of individuals retired 15 years or more who currently need long-term care.

3. Note that this research covers preretirees and retirees and that the age range is 45 to 80. This article deals with what retirees said.

4. Focus groups were conducted with retirees in 2005, 2013 and 2015. The 2013 focus groups were resource-constrained retirees who had retired relatively recently, and the 2015 focus groups were resource-constrained retirees who had been retired for at least 15 years. The focus group reports include many quotes from the retirees.

5. There are generally similar findings in the 2013 and 2015 focus groups.


7. Materials from the U.S. Department of Labor include a workbook (available online or in print), worksheets, a list of resources and a related software tool. These materials are a good start on organizing the big picture and are available at www.dol.gov/ebsa/publications/nearretirement -pdf.pdf.

8. The Society of Actuaries offers an infographic to help individuals understand longevity, and the Society of Actuaries and American Academy of Actuaries have jointly released a calculator for estimating personal longevity.

Voices of Retirees (In-Depth Interview)

“He would get up in the middle of the night to go to the bathroom, fall on the floor, flail around, get panicky, hurt her [his spouse] when she would try to pick him up or try to help him get up.”

—Woman assisting father in the United States

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