Behavioral Changes

Making Choices for Postretirement: Knowledge, Behaviors, Preferences and Misperceptions

Why and how do Americans manage postretirement risks? To help answer this question, this article draws heavily on Society of Actuaries research, as well as additional research done on retirement plan selection and lifetime income options. These surveys raise a number of issues about planning for retirement that should be helpful to employers as they focus on plan design structures and employee education programs. A direction for future research is developing more thoughtful framing and the application of decision theory in order to help people make more informed decisions.

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This article draws on research that illuminates why and how people manage postretirement risks. It draws heavily on Society of Actuaries research and also on additional research done on retirement plan selection and lifetime income options. Some of the issues considered include:

- Planning horizons and issues
- Lack of understanding of the impact of delaying retirement
- Preferences for defined benefit (DB) vs. defined contribution (DC) plans
- Views on lifetime income
- Impact of guidance on decisions about lifetime income
- Major risk management strategies.

Key findings and insights have been highlighted throughout the article. The article also concludes with a summary of some key findings. Most of the research focuses on middle-income market[1] Americans, but several studies focus on people with above-average wealth. The article primarily focuses on Americans who are long-term employed, rank-and-file workers, but not high net worth individuals. The studies considered are based on samples of the general population and not linked to specific employers.

Postretirement Risk Research From the Society of Actuaries

The Society of Actuaries (SOA) has a multifaceted program related to retirement issues and the postretirement period. The major ongoing research is the *Survey of Risks and Process of Retirement.* From 2001 to 2011, this has been conducted biennially as a telephone survey series sponsored by the Society of Actuaries with the Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates. The studies include a mix of repeated questions and areas of special emphasis. This article draws on both the basic study and areas of special emphasis. The populations studied are retirees and preretirees, who must be aged 45 or older. The respondents are selected to be representative of the general population.

Areas of emphasis from the studies lead to special reports. In this article, the special reports on the process of planning and on understanding longevity are cited.

The program includes several other surveys, some of which are included in the references to this article. The committee works with several partners. The *Retirement Plan Preferences* survey focused on what types of retirement programs employees prefer, and what features of these programs are important to Americans. The *New American Family* study sought to understand if different types of families viewed postretirement risks differently.

Some studies, such as *The Financial Recovery for Retirees Continues,* focus on a subset of the population. This study series started with retirees who had at least $100,000 in investable household assets.

Not included in this article is a discussion of two important issues: investment allocations and tax strategies. These issues are both also very important to retirement security.

The work of the program is all available on the SOA website at www.soa.org/research/research-projects/pension/research-postretirement-needs-and-risks.aspx and includes varied collections of papers, presentations about the work of the committee and diverse research projects.

Insights Into Planning and Planning Horizons

Key Finding: Many people near and at retirement age have planning horizons that are much shorter than the remainder of their expected lifetimes and many people underestimate longevity. In addition, too many do not do much long-term planning.

Gaps in planning have been documented in different sources. In the *2011 SOA Postretirement Risk Survey*, 57% of retirees (up from 44% in 2005) have a plan for how much money they will spend in retirement and where the funds will come from. In 2011, 35% of preretirees (up from 31% in 2005) have such a plan.

Planning for retirement was an area of special emphasis in the *2009 SOA Postretirement Risk Survey.* It showed that many retirees and near-retirees have a planning horizon shorter than their life span. In 2009, 49% of retirees and 37% of preretirees had a planning horizon of less than ten years. By 2011, this had decreased to 48% and 32%, respectively. In 2009, only 13% of preretirees and 7% of retirees said they look 20 years or more into the future when they plan. By 2011, the number looking 20 years or more into the future had increased to 19% of preretirees and 7% of retirees. The *Financial Recovery for Retirees Continues* study asked retirees whether their assets and investments need to last at least 20 additional years.[2] In 2008, 65% said yes, but this dropped to 48% in 2009 and 45% in 2011. The aging of the sample in that study could account for a small part of the change, but overall this is a significant change. The panel for that study was retirees aged 55-75 in 2008.

Understanding of longevity was an area of emphasis in the *2011 SOA Postretirement Risk Survey*, updating an area of emphasis from 2005. Many people underestimate life expectancy or do not understand what it is. Some people will die tomorrow or next month, but others will live to the age of 100 and beyond. Life expectancy provides an average of how long people at a particular age are expected to live. About half will live longer, and it is impossible to identify at earlier ages who will have a longer-than-average life span.

Based on average population mortality as shown in Table I, there is a 72% chance that one spouse in a couple where both are aged 65 will live beyond the age of 85 and a 4% chance that one will live to the age of 100. Using the improved mortality table shown in Table II, the 72% increases to 81% and the 4%

increases to 10%. Using the population mortality table in Table I, 31% of women and 20% of men aged 65 can expect to live to the age of 90. With the improved mortality in Table II, that increases to 42% and 30%. While many people find it difficult to think very far into the future, one way of focusing attention on long life is to ask people if they knew anyone who lived to a very high age. The 2011 survey showed that half of people underestimate population longevity and there was a very small improvement in understanding of life expectancy. The 2011 survey showed that the majority of both retirees and preretirees expect to live well into their 80s.

Insights: More work is needed to help individuals understand expected life spans and their variability, and to focus on desirable planning horizons. Anyone providing retirement education should remind couples that they need to plan for the life of the longer lived spouse. Case studies and stories can be helpful in thinking through issues related to long life. These are areas where employers and plan administrators who provide education to employees could be helpful.

Key Finding: There is widespread misunderstanding of the economic impact of the death of a spouse.

Many people do not plan adequately for widowhood. An individual needs about 75% as much to live as a couple.[3] The majority (about six in ten) of respondents to the 2009 and 2007 SOA postretirement surveys indicate that they think the survivor will be about as well off financially as before the death of his or her spouse.[4] About the same percentage think that the survivor will be better off vs. worse off. Yet many widows have a decline in economic status after the death of their husbands. About four in ten older women living alone have virtually no money other than Social Security. There are a variety of ways to help protect spouses including joint and survivor options for payment of pensions, life insurance, retaining asset balances that can be transferred to the survivor and long-term care insurance.[5]

TABLE I

Probability of Living From the Age of 65 to Various Ages*

Age	Male	Female	Survivor
80	60%	71%	88%
85	40%	53%	72%
90	20%	31%	45%
95	6%	12%	18%
100	1%	3%	4%

*Based on Social Security Mortality Tables (representative of the total population). Survivor represents the remaining spouse after one dies in a married couple.

Source: Key Findings and Issues, Longevity, 2012. Society of Actuaries.

TABLE II

Probability of Living From the Age of 65 to Various Ages*

Age	Male	Female	Survivor
80	68%	77%	93%
85	50%	62%	81%
90	30%	42%	60%
95	13%	21%	31%
100	3%	7%	10%

*Based on 75% of Social Security Mortality Tables (representative of more highly educated and upper income population). Survivor represents the remaining spouse after one dies in a married couple.

Source: Key Findings and Issues, Longevity, 2012. Society of Actuaries.

Preferences for DB vs. DC plans

Key Finding: There is ambiguity about preferences for DB and DC plans. Public sector employees prefer DB plans.

One of the major trends affecting the retirement system is the shift from DB to DC plans. The advantages and disadvantages from the perspectives of employers and employees have often

TABLE III

Typical Practices in DB Retirement Plans in the United States*

Characteristic	Private Sector	Public Sector
Plan requires employee contributions.	No	Yes
Participation mandatory for eligible employees	Yes	Yes
Cost-of-living indexing of benefits included	No	Yes
Vesting	Five years or less	Longer periods
Normal retirement age	65	Varies, commonly earlier
Employees also get Social Security.	Yes	Not always

*Private sector plan practices do not include consideration of union and multiemployer plan practices.

been discussed. Considering the entire plan population, DB plans require a lower contribution than DC plans on average to produce the same dollars of benefits, because the DB plan is likely to earn greater investment returns since it is professionally managed, may have lower asset management fees and can absorb more risk. Both plans can vary in design and both vary in level of benefits. Traditional DB plans allocate dollars heavily to longer service employees who stay until retirement age. Typical DC plans allocate dollars more evenly to employees regardless of their age or how long they stay with the employer. The employee typically is required to provide contributions in order to obtain employer benefits in the DC plan; DB plans in most private industries did not require employee contributions. The plan sponsor has the full investment risk and responsibility in DB plans, whereas the investment risk shifts to the employee in DC plans. Most DC plans allow employees investment choice, but the plan sponsor is responsible for structuring the choices and default options. The structure of typical benefits is very different in the public and private sectors (Table III), and within the private sector, the structure of benefits varies by employer size, industry, etc.

One of the questions often asked about DB and DC plans is whether individuals prefer one vs. the other, and what we know about these preferences. It should be noted that these preferences may vary by employer type.

In order to understand the preferences of employees by plan type, the Society of Actuaries and the American Academy of Actuaries surveyed the American public to understand which plan type they preferred.[6] The study team was concerned that the public would not understand the meaning of DB and DC, so the respondents were sorted by plan type based on questions about how their plans worked rather than being asked directly what type of plan they were in.

The findings of the study did not present a clear preference for either type of plan. The findings showed that both workers and retirees tend to express a preference for the type of plan they already have. The project oversight group discussed this ambiguity at the time of the study and was unable to find a clear reason. One of the questions raised and never answered was whether the type of pension plan was a factor in the selection of a job by the individual. The author believes that, in general, pension plans do not become a factor in employment choices for most people until they are in their 40s. However, benefits may be a factor in decisions made by people who make choices about police and fire employment, or about choosing a military career. That topic is worth further study.

The *Retirement Plan Preferences Survey* indicates that some reasons for the finding of ambiguity may be because employees are more familiar with the type of plan they already have, they have been sold on this type of plan by their employer or retirement plan provider, or they have deliberately sought an employer that offers this type of plan. The report details showed that:

TABLE IV

New Hire Elections in Most Recent Complete Year*

System	DB Plan Enrollments	DC Plan Enrollments	Combined Plan Enrollments
Colorado Public Employees' Retirement Association	88%	12%	Not offered (NO)
Florida Retirement System	75%	25%	NO
Montana Public Employee Retirement Administration	97%	3%	NO
North Dakota Public Employees Retirement System	98%	2%	NO
Ohio Public Employees Retirement System	95%	4%	1
State Teachers Retirement System of Ohio	89%	9%	2
South Carolina Retirement Systems	82%	18%	NO

NO means enrollment in combined DB/DC is not available.

*Data for Colorado, North Dakota and Ohio PERS are for calendar year 2011. Data for other systems is from July 1, 2010 to June 30, 2011.

Source: Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers, National Institute on Retirement Security, September 2011.

- "Among those with only defined contribution plans, 62% of workers and 56% of retirees prefer defined contribution plans. Only 19% of workers and 28% of retirees prefer defined benefit plans."
- "Among those with only defined benefit plans, 51% of workers and 68% of retirees prefer defined benefit plans. Thirty percent of workers and 17% of retirees prefer defined contribution plans."
- "Those with both types of plans are fairly evenly split in their preferences."
- "It should be noted that the preference for a defined benefit plan among workers who have this type of plan is strongly influenced by the preferences of government workers, almost two-thirds of whom prefer defined benefit plans (64%). Non-government workers with defined benefit plans are equally likely to express a preference for defined benefit and defined contribution plans."

At the time the study was conducted, the project oversight group was told that employees preferred DC plans, but this is not necessarily true. The study reflects preferences for types of plans but it does not offer insights about what happens if a choice is provided. The study did offer insight into preferences about plan provisions. The preferences about plan provisions seemed to follow the preferences in plans. The respondents to the survey varied in the features they feel are important in a retirement plan, depending upon whether they currently have a DB or a DC plan. The study results indicated that:

> Those with a defined benefit plan are most likely to think that the "traditional" defined benefit feature of a guaranteed stream of lifetime income is very important (68%), followed by portability (48%), defined benefit formula based on years of service and/or salary (45%), and the ability to save through automatic deductions (44%). On the other hand, workers with a defined contribu-

tion plan are most likely to think automatic savings is very important (64%), followed by portability (63%), a guaranteed stream of lifetime income (51%), and investment choice (51%).

The study also explored the differences between governmental and nongovernmental workers. The results showed that nongovernmental workers with DB plans are somewhat more like DC workers than are government workers with DB plans.

Some governmental plans offer a choice between DB and DC plans (Table IV). New hire elections heavily favor DB plans in these situations, but in some cases, the DB plan is the default.[7]

Common Threads Regardless of Plan Preferences

The *Retirement Plan Preferences* survey focused on features rather than plan types. The results showed that some of the same issues were important to respondents regardless of their apparent preferences for DB and DC plans. Key findings across plan types are:

- Guaranteed lifetime income is ranked among the top tier of retirement plan features for all worker groups, regardless of type of plan.
- Portability and automatic savings are also highly rated by all current worker groups except government workers with DB plans.
- Guaranteed lifetime income starting at retirement, not outliving one's money, keeping up with inflation and control of savings are the top four very important considerations for all groups when choosing a payout option (though the order is not the same for each group).
- Retirees are most likely to say the provision for a guaranteed stream of lifetime income is a very important feature of a retirement plan, regardless of plan type.
- Retirees are also most likely to say a guaranteed lifetime income starting at retirement, not outliving one's money and keeping up with inflation are very important considerations for choosing a payout option from a retirement plan. This ranking does not change with plan type.

Insights: It is not clear how changing plan type in the private sector affects employee satisfaction. The level of benefits is probably as important as, or more important than, the plan type. The author also believes that public awareness of retirement security issues and preferences for different types of plans may change in 2014. Health benefits have been a key component of job preferences and had the most attention paid to it in recent years, but this is likely to change with the full implementation of the Affordable Care Act.

Method of Payment of Benefits After Retirement

In a world where DC plans are increasing in importance, and they are often the primary retirement vehicle, the method of drawing down funds during retirement is one of the most important decisions an individual will make. There are major differences and trade-offs between options from the perspective of the individual. Table V indicates some features of major retirement income funding options.

The Society of Actuaries is interested in understanding choices with regard to postretirement resource use and has focused on this in different studies. In the study *Can Annuity Purchase Intentions be Influenced?* Behavioral Research Associates conducted an online experiment with four different informational interventions. That research suggested that the window of opportunity to influence annuity decisions was prior to retirement. The results also indicated that none of the interventions had a significant impact on annuity purchasing.

When given a choice of a lump sum or a life annuity, most people will choose the lump sum, even if it is not a good deal. However, when asked about the preferred method of payment and the importance of various pension plan characteristics, respondents say that lifetime income is very important. As indicated above, this issue was explored in the *Retirement Plan Preferences Survey.* Some of the key findings on this topic follow.

> Given a choice of equal value, two-thirds of workers overall (57% of workers with a defined contribution plan and 71% of those with a defined benefit plan) indicate a preference for taking their retirement income as a life annuity. Just 12% say they would prefer to receive a lump sum.
>
> When choosing a payout option from their retirement plan, workers and retirees say they are primarily concerned with ensuring their money will last throughout their lifetime.

TABLE V

Trade-Offs Between Postretirement Options

Features	Income Annuity	Other Products With Guarantees	Withdrawals
Guaranteed income for life	Yes	Yes, but at lower level than income annuity	No
Mortality leveraging*	Yes	Some	No
Liquidity/access to funds	Not in most products	Yes, within limits	Yes
Remaining account value goes to heirs if early death.	No—unless refund option elected	Yes, after fees for guarantees	Yes
Owner can control funds in the account while income is being paid out.	No	Yes, within limits	Yes

**Mortality leveraging* means that early deaths among people receiving payouts from the pooled annuity funds subsidize the payouts for those who live longer. This pooling effect enables higher payouts than if taking systematic withdrawals.

Source: Adapted from Society of Actuaries, *Designing a Monthly Paycheck for Retirement,* 2012.

Control and access are very important to smaller proportions of participants. The features cited as very important by participants are:

- Receiving a guaranteed amount monthly during retirement no matter how long they live (69% of workers and 86% of retirees)
- Ensuring they do not outlive their money during retirement (69% and 77%)
- The ability of the income to keep up with inflation (65% and 75%)
- Being able to maintain control of their retirement savings (61% and 54%)
- Having money they can access for emergency purposes (38% and 30%)
- Being able to leave money to heirs from their retirement savings (31% and 19%).

The study also indicated that regardless of whether they received benefits from a DB or DC plan, retirees were most likely to indicate that a guaranteed stream of lifetime income is a very important feature of a retirement plan (85% of those with a DB plan; 71% of those with a DC plan).

In *The Role of Guidance in the Annuity Decision Making Process,*[8] the authors identify several important factors with regard to annuity purchasing and decision making:

- There is a lot of misunderstanding surrounding these topics.
- Guidance matters, and it can be either a boost or a hindrance to annuity purchasing. Advisors and benefit representatives may encourage a specific approach or type of option. In some cases, advisors are paid differently depending on the type of option selected. More investigation is needed to understand whether and to what extent this influences their advice.
- Competition matters, and it can make a significant difference in the outcome for the purchaser.
- All-or-nothing decisions that require either 100% annuitization or no annuitization are not desirable and can be a barrier to annuitization. For people who choose annuities, they will normally want to do this with part of their assets.
- Many of those people who buy annuities prefer to do so after they have retired.
- It is important for participants to understand the range of options and know the pros and cons.

Note that there are some regulatory barriers to the use of

TABLE VI

Reasons for Retiring (Top Mentions)

Event or Situation	Retirees	Preretirees
Health problems/disabled	27%	4%
Met age/years of service requirement	19%	19%
Stopped working completely	17%	18%
Started receiving pension/Social Security	9%	20%
Got tired of working/had enough	9%	9%
Had enough money to stop working	8%	24%

Source: 2011 Society of Actuaries *Risks and Process of Retirement Survey.*

annuity options in DC plans today. This was a topic of exploration by the 2012 ERISA Advisory Council. The council made recommendations to the Department of Labor to ease some of the barriers.

There is no agreement about the desirability of annuitization. Many actuaries and economists believe that the guarantees are very important and tend to favor annuitization. Financial planners and advisors are much more likely to favor investing the funds and gradually drawing down the money. Different types of people who offer various forms of advice may be paid differently depending on the advice given. In addition, annuitization may decrease the assets available to respond to so-called shock events, such as uninsured medical or long-term care costs. The area of conflicts of interest needs further exploration.

Insights: There is a role for employers in helping employees define and implement well-thought-out postretirement options. Employers have a number of choices with regard to role.

Key issues with regard to income decisions in retirement are:

- There are major trade-offs between choices.
- Experts do not agree on the right answer, and it is very dependent on personal choice.
- This can be one of the most important financial decisions of people's lives.
- What people say they want and what they do often do not match.
- There is a need to clear up the misunderstandings and have people understand the options better. The word *annuities* is used to apply to a wide range of products, and that adds to the confusion.
- Where annuities are used, the method of purchasing can have a significant impact on the financial result.
- More focus on barriers is needed.
- Delaying claiming Social Security is a very cost-effective way to increase guaranteed, inflation-indexed lifetime income. It is desirable to do this before buying annuities in the marketplace.

Age at Retirement and Working in Retirement

Key Finding: There is a big difference between the age at which current retirees actually retired and the age at which preretirees say they expect to retire. Part of this is due to unplanned early retirement. There are also big differences in the reasons given by retirees for retiring and the expectations of preretirees.

In the 2011 *Risks and Process of Retirement Survey*, 31% of retirees had retired before the age of 55, 51% before the age of 60 and 82% before the age of 65. In contrast, 12% of the preretirees expected to retire before the age of 60 and 37% before the age of 65. Thirty-five percent of preretirees stated that they do not expect to retire, up from 29% in 2009. In the 2009 *Risks and Process of Retirement Survey*, 28% of retirees had retired before the age of 55, 52% before the age of 60 and 71% before the age of 65. In contrast, 11% of the preretirees expected to retire before the age of 60 and 41% before the age of 65. *Retirement* is defined as retirement from your primary occupation. Similar findings have been found in prior years. Other research documents that about four to five out of ten individuals retire earlier than expected.[9]

The 2011 study included a question to focus on what event or situation caused retirees to retire or was expected to encourage retirement of preretirees.

TABLE VII

Percentage of Retirees Very or Somewhat Concerned About Major Risks

Year of Survey	Health Care Risk	Long-Term Care Risk	Inflation Risk
2011	61%	60%	69%
2009	49%	46%	58%
2007	51%	52%	57%
2005	46%	52%	51%
2003	46%	48%	57%
2001	43%	NA	55%

Percentage of Preretirees Very or Somewhat Concerned About Major Risks

Year of Survey	Health Care Risk	Long-Term Care Risk	Inflation Risk
2011	74%	66%	77%
2009	67%	55%	71%
2007	69%	63%	63%
2005	75%	61%	65%
2003	79%	66%	78%
2001	58%	NA	63%

Source: 2001 to 2011 Society of Actuaries surveys of *Risks and Process of Retirement.*

The expectations of preretirees are very different than the actual experience of retirees (Table VI).

The 2007 and 2009 risk surveys focused on understanding the impact of retiring three years later. In 2009, 35% of retirees and 49% of preretirees said it would make them a little more secure. Only 14% of retirees and 9% of preretirees said it would make them a lot more secure. Forty-six percent of retirees and 37% of preretirees said it would make them no more secure. Respondents were given various reasons for making them secure, and they clearly focused on continuing to receive employer health insurance, but focused very little on the other reasons.

Insights: The author believes that many individuals underestimate the value of retiring later. This is an area for employer action. Employers can offer tools and information to help employees evaluate the impact of retiring at different points in time. This is an issue of critical importance for middle-income-market Americans.

Most Important Postretirement Risks and Trends in Risk Preferences

Key Finding: Preretirees generally are more concerned about risks than retirees, and the top three risk concerns appear repeatedly.

This has been a major finding from the SOA *Surveys of Post-Retirement Risk* in all years and cuts across the different areas of risk. The survey oversight group has discussed the reasons for this and believes that retirees have become accustomed to their situation and adjusted accordingly. However, the survey results do not find an overall way to verify this point.

The risk survey results have been remarkably stable over the six surveys. Over the entire period, preretirees were consistently more concerned than retirees. The areas of most concern for retirees and preretirees have consistently been concern about paying for adequate health care in retirement, concern about not having enough money to pay for a long stay

TABLE VIII

Use of Risk Management Strategies for Financial Risk Management

Strategy	Retirees: Already Done (%)	Retirees: Plan to Do (%)	Preretirees: Already Done %	Preretirees: Plan to Do (%)
Eliminate all of your consumer debt	56	27	49	41
Try to save as much as you can	61	20	52	37
Cut back on spending	62	14	54	29
Completely pay off your mortgage	47	28	26	56
Buy a product/choose plan option with income guaranteed for life	33	6	27	13
Postpone taking Social Security	25	10	7	37

Source: 2011 SOA *Risks and Process of Retirement Report: Understanding and Managing the Risks of Retirement.*

in a nursing home or a long period of care at home, and concern that the value of savings and investments will not keep up with inflation. The relative positioning of the top three risks changes, but these risks are the persistent top three (Table VII).

The areas of greatest concern switch in order from year to year. There were somewhat increased concerns about risk on the part of preretirees in 2003 (after the terrorist event in 2001 and the market conditions in 2001-2002) and again in 2011 on the part of preretirees and retirees. Year 2011 follows several years of market instability and depressed housing prices, as well as higher unemployment. The changes from 2001 to 2003 had essentially disappeared by 2005. It is unclear whether the levels of concern expressed in 2011 will persist. It is puzzling why the increased concern that was found in 2011 did not appear in 2009. It is also unclear whether recent economic conditions are the main driver of increased concern in 2011.

The *New American Family* study has looked at concerns with regard to postretirement risk by family type. This study found that the main retirement concern of families was about maintaining a reasonable standard of living for the rest of their lives. Families were very concerned about paying living expenses, health care and long-term care expenses. The results were reviewed by family type, and it was found that married couples were generally less concerned about the risks than noncouples. However, they are also better off. While there are differences in planning issues between first-marriage and later-marriage couples, there were not significant differences in risk concerns. The results were generally compatible with the *Risks and Process of Retirement Survey* series. One issue that was included in the *New American Family* study was the effect that changes in taxes and government programs such as Social Security and Medicare would have on financial resources for retirement. This concern ranked high for all groups. The *Risks and Process of Retirement Survey* does not look at this issue.

Insights: There is an important role for employers in helping to expand awareness of postretirement risks and the need to consider them in planning. There is an opportunity for employers to help people expand their understanding of the importance of making assets last for a lifetime.

Key Finding: Many people have not focused well on the expected costs of long-term care. Among preretirees, there is more concern about paying for acute health care costs in retirement than for long-term care, even though Medicare pays for most acute health care. Among retirees, there is recently a little more concern about paying for long-term care than for acute health care.

These findings are puzzling. While Medicare pays for a major share of acute health care expenses, there is no similar general public program to cover long-term care expenses. (Medicaid programs pay for a significant part of these expenses, but

TABLE IX

Use of Risk Management Strategies for Health Risk Management

Strategy	Retirees: Already Done (%)	Retirees: Plan to Do (%)	Preretirees: Already Done %	Preretirees: Plan to Do (%)
Maintain healthy lifestyle habits	82	10	79	15
Purchase supplemental health insurance or participate in an employers' retiree health plan	65	14	25	51
Save for the possibility of having large health expenses or needing long-term care	33	13	17	28
Buy long-term care insurance	25	11	19	22
Move into or arrange for care through a continuing care retirement community	2	10	1	11

Source: 2011 SOA *Risks and Process of Retirement Report: Understanding and Managing the Risks of Retirement.*

only for those with extremely low incomes and little wealth.) These gaps in knowledge are important and are a message to those helping people plan for retirement about the importance of educating their clients on long-term care risk.

What Research Says About Plans for Risk Management

Key Finding: Use of financial products is not a popular method of risk management. The respondents to the SOA risk surveys are more focused on eliminating debt and cutting back on spending rather than using financial products.

Risk management strategies have been a repeated focus of the *Risk Survey* series, and they were the subject of a special report linked to the 2009 *Risk Survey* series. They were also a subject of the special report, *The Financial Recovery for Retirees Continues.*[10] Both studies focus on the importance of paying down debt. Top areas for risk management consistently are elimination of debt, trying to save more and cutting back spending. Buying financial products for risk management is generally much lower on the priority list (Table VIII).

Insight: These results document the relatively low preference for buying financial products to protect against longevity and other risks. Employers should consider their role in helping employees manage these risks.

Insight: Supplemental health insurance is used much more often than long-term care insurance, and both are used more often than annuity and life insurance products to protect against longevity risk (Table IX). Given what is covered by Medicare, this may not be a logical choice for many employees.

Conclusions

These surveys raise a number of issues about planning for retirement. The results can be thought of together and, in many cases, the same issue will appear in multiple studies. Key insights are as follows:

- Top risk concerns have been consistent over the last decade and include concerns about inflation risk, health care costs and long-term care costs.
- Risk management is more focused on cutting expenses, paying off debt and increasing savings rather than on the purchase of risk management products such as annuities and long-term care insurance. However, a large majority of retirees purchase supplemental health insurance.
- While people say that lifetime income is very important,

they are more likely to choose lump sums. It is important to understand the barriers to lifetime income and work to address them. There are very important trade-offs between options for managing assets postretirement, and there is no one right answer, nor is there an agreement on the best strategies.

- Planning horizons are too short, and this probably leads to a failure to plan well for the later years of retirement and, in some cases, to consider the needs of the surviving spouse.
- There is considerable misunderstanding of life spans and their variability. This may be a contributing factor to planning horizons that are too short and limited focus on postretirement risk management.
- Retirement ages are very important for the security of middle-income-market Americans, but many do not understand the financial impact of retiring later. There is a huge difference between when people retire and when they expect to retire, with retirees having retired much earlier than preretirees expect to retire.
- It is unclear which employees prefer DB vs. DC plans except that public employees prefer DB. Past research indicates that employees seem to prefer what they have and are familiar with.

The research presented here does not deal with the important issues of framing and decision theory. More thoughtful framing and the application of decision theory offer the potential to help people make more informed decisions. It raises issues that should be helpful to employers as they focus on plan design structures and employee education programs. BQ

Endnotes

1. There is no common definition of *middle-income market*, but the Society of Actuaries *Segmenting the Middle Market* study looks at the 25% to 75% percentile by wealth as *middle mass* and the 75% to 85% percentile as *middle affluent*.
2. *The Financial Recovery for Retirees Continues* was the third in a series of three studies that looked at the same respondents and repeated questions. The studies were conducted in 2008, 2009 and 2011.
3. Author's estimate.
4. The question about the welfare of spouses after one dies was not repeated in 2011 as the 2007 and 2009 results were very similar.
5. For more information on managing risks, see Society of Actuaries, *Managing Post-Retirement Risks,* 2011.
6. *Retirement Plan Preferences Survey,* 2004. Study conducted by Mathew Greenwald & Associates for the Society of Actuaries and American Academy of Actuaries.
7. Mark Olleman and Ilana Boivie, *Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers,* 2011. National Institute on Retirement Security.
8. Paper by Kelli Hueler and Anna Rappaport, presented at the 2012 Pension Research Council symposium and published as *Working Paper WP2012-11* by the Pension Research Council.
9. EBRI *Retirement Confidence Study Series.*
10. Ibid, 2.

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