Ideas for Improving Retirement Wellness

Employers can and should take steps to support retirement and financial wellness. This article provides a framework for retirement wellness informed by research conducted or supported by the Society of Actuaries. Research insights about Americans’ finances, planning, decisions, money management, debt, retiree income shocks and other areas point to ways employers can provide retirement wellness support as a vital part of an overall benefit program. The author suggests several key considerations employers should pay attention to in order to improve retirement wellness.

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Introduction

There is growing recognition of the importance of retirement and financial wellness. While traditional definitions of retirement adequacy focused on having enough financial resources for a successful retirement, I see retirement wellness as a much broader concept. To me, retirement wellness means having:

• A framework—financial, social and purposeful activity and health-related—for managing one’s life in retirement
• Sufficient financial resources and a system to manage them to make the framework a reality
• Knowledge and perceptions that are compatible with the framework and resources
• Passions and activities that bring meaning to one’s life
• The ability to maintain reasonable health or to manage one’s life satisfactorily within existing constraints
• Housing that supports life activities and personal needs and is compatible with financial needs
• A basic financial structure to build on
• A reasonable network of personal contacts.

This article will present the retirement wellness framework, research results from Society of Actuaries (SOA) sponsored research and ideas for employer support that may be needed to enhance retirement wellness. (See the sidebar, “Accessing the Research.”) The framework and ideas presented here are mine and are not those published by any organization.

The Framework for Retirement Wellness

The Sightlines Project1 set up a paradigm for thinking about living long and living well in America. This project focused broadly on successful aging and established three domains for successful living in old age: healthy living, financial security and social engagement. The project also established a number of indicators to help measure progress in each domain. The research showed improvements in some areas but a poorer result in others, and it provided ideas for social action.

I agree with the idea of a broad perspective and the importance of having a well-balanced life. I will elaborate further on the framework:

• A framework—financial, social and purposeful activity
and health related—for managing one’s life in retirement. I see it as essential to establish goals and focus on what is most important. While much retirement planning is focused on financial issues, it is also important to have social or other activities that create a sense of personal worth and engagement. Comprehensive planning for a retiree’s financial future requires some ability to forecast what his or her activities and interests will be.

- **Sufficient financial resources and a system to manage them to make the framework a reality.** Conceptually this seems self-evident, but there is considerable disagreement about how much is enough. I would propose that this means sufficient financial resources for a satisfactory lifestyle and not necessarily being able to continue throughout retirement with the same lifestyle as one had before retirement or even during the early years of retirement. SOA research shows that many retirees are resilient and adaptable. The framework should include reasonable risk protection. The framework should also support a retiree’s expected activities and interests.

- **Knowledge and perceptions that are compatible with the framework and resources.** One of the disturbing findings in more than 15 years of research is the continuing problem of gaps in financial knowledge. Gaps in similar areas have been found repeatedly over time. For example, SOA research has consistently shown that preretirees expect to retire at a much later age than retirees have actually retired.

- **Passions and activities that bring meaning to one’s life.** To me, a successful life in retirement includes doing things that one feels are worthwhile and important. Passions define what is important for each of us. Grandchildren are some retirees’ biggest passion. Others enjoy creative activity, and others might love volunteer work. For me and a number of professionals I know, volunteer work in the profession in which we spent our careers has become an important part of retirement. I propose that for people with reasonable economic resources, the question of what is the right passion is purely a personal issue, and it may change over time. But I also propose that the need to be passionate is universal.

- **Working to maintain reasonable health.** Health is important to all of us, and we start from where we are. For some, this involves maintenance, while others need to work to try to improve their health. Depending on the situation, this can be a huge amount of work. Some individuals have chronic illnesses and constraints and need to manage within those constraints.

- **Housing that supports life activities and personal needs and is compatible with financial needs.** Housing is very often the biggest item of expenditures for retirees, and the house may be the largest household asset. The dwelling’s location and structure affect the ability to participate in desired activities and the ease of social interactions. The house must accommodate those with limitations. If other assets are limited, the value of the house must be considered in the financial picture.

- **A basic financial structure to build on.** I start here with basics such as having the right job, having a bank account and participating in the mainstream financial system. Other basics are having an appropriate emergency fund and keeping debt under control. This structure creates a solid foundation on which to build retirement savings.

- **A reasonable network of personal contacts.** Social interaction is an important part of successful retirement, and contacts are the first step to interaction. People with larger families may not need as many outside contacts. Some communities facilitate interaction through their structure and activities, but it is much more difficult in others.

My framework includes the same big domains as set forth in the *Sightlines* report, and it also includes a focus on passions and housing.

**Research Background**

Several studies sponsored or cosponsored by SOA provide insights that support these topics. SOA has conducted research for more than 15 years to help understand how retired Americans and those people approaching retire-
The most recent SOA postretirement risk research, released in January 2016, offers insights into spending, debt and financial shocks experienced by older Americans, as well as how they perceive and manage financial risks.

The 2015 Survey of Post-Retirement Risks and the Process of Retirement was preceded by focus groups in both the United States and Canada. These were conducted with retirees who were retired for 15 years or more. In-depth interviews were done with caregivers of retirees currently needing long-term care (LTC) and retired 15 years or more. The focus groups were designed to understand how retirees were doing and how much they had been affected by shocks. The 2015 research also included questions about what people had learned from their parents’ experience.

In addition to the risk surveys, SOA is partnering with the U.S. Social Security Administration to support research conducted by the Center for Economic and Social Research at the University of Southern California. This work complements the risk survey and provides additional findings. The 2015 study How Americans Manage their Finances provides insights into financial management at all ages, including the use of financial products, debt, financial stresses and planning for the future by age group.

SOA was a sponsor of the Sightlines report prepared by the Stanford Center on Longevity. As mentioned above, this study set forth a paradigm for successful aging.

SOA also sponsored a series of studies focusing on understanding benefit adequacy. There are three studies in this series: Measures of Benefit Adequacy, Improving Retirement Outcomes and Challenges and Strategies for Financing an Increasingly Long Life. These studies provide background information on the topic and then use simulation modeling to estimate what asset level is needed for an expected successful retirement. They are unusual because the stochastic modeling includes mortality, health and LTC risks as well as economic issues.

Another facet of the SOA research is two studies assessing retirement planning software products and how they handle postretirement risk. Both studies remind plan sponsors that it is important to be cautious about software offered to employees. This presents a challenge. The vast majority of employees can’t do long-term retirement planning calculations without software, yet a great deal of care is needed in selecting the right tool.

The first study included processing the same case studies through a number of different systems, and the results were very different depending on the system used. Both studies raise issues of quality control. Plan sponsors providing tools to employees should ensure that they have vetted the tools and provide good explanations of what they are suitable for.

The insights derived from these research studies are helpful in understanding the knowledge level and strategies of retirees and those nearing retirement regarding what is needed for retirement. Based on these insights, I offer suggestions for thinking about retirement wellness holistically and for educating employees with regard to the management of risks during retirement.

Insights

These insights are informed by the research from the SOA Committee on Post-Retirement Needs and Risks (CPRNR) and other SOA-supported research. They lay a foundation for thinking about issues that should be considered when focusing on retirement wellness.

General Insights

Retirement Wellness Is Not Just About Money

While adequate financial resources are necessary, they are not the whole story. As indicated above, there is much more to achieving retirement wellness. During nearly 20 years of work on this topic, I gradually recognized the importance of the range of issues discussed in this article.

Importance of Housing Wealth

The family home is the major asset for many middle-income American families nearing retirement. The CPRNR conducted two studies on Segmenting the Middle Market and found that housing wealth far exceeded financial assets for many families. This finding changed my thinking about retirement planning issues and has made me always want to include some consideration about hous-
ing as we discuss planning strategies. These findings also made me realize that planning focused solely on investments was not relevant to the needs of many people. (Note that these studies did not include the value of Social Security or defined benefit plans in the value of assets.)

**Which Decisions Are Most Important**

A large part of retirement planning is about investing well, but that only matters if you have assets to invest. For families with housing wealth and very little or no other financial assets, the big decisions are when to claim Social Security, when to retire and how to manage expenses. Figuring out how to work longer can be especially important for them. For software and advisory services to be useful, they need to focus on the issues of importance to the user. The *Segmenting the Middle Market* studies, among others, led me to this insight.

**Many Who Voluntarily Retired Felt “Pushed”**

In 2013, the CPRNR conducted focus groups with people who indicated they had retired voluntarily and were financially resource-constrained. We previously knew that there were many involuntary retirements, and we learned in 2013 that many voluntary retirements were also “pushed.” Reasons included unpleasant working conditions, family needs and health challenges. We also learned from this group that few of them had retired to realize a dream.

**More People Expect to Work in Retirement Than Actually Do**

Working in retirement can be difficult, but either retiring later or working in retirement are important ways for people with limited financial resources to improve their retirement security. The chances of being successful with work in retirement are greatly enhanced if people maintain skills and contacts, are willing to accept reduced roles and responsibilities and have a strategy to stay employable. Phased retirement is of interest to employees but not often available by most employers. Part-time jobs are more widely available. It is often hard for older persons to get jobs, and this is an area that needs attention. For some people, this issue is more important than learning about investments.

**Retirement Planning Means Different Things to Different People**

As an actuary, when I think of retirement planning, it seems automatic to think about the long term, rest of life, risk and contingencies, and the time value of money. Actuaries’ opinions differ about which risks are important and how to measure them, but generally they embrace these ideas. I was surprised to learn that for some people (probably without quantitative backgrounds), planning is very different.

In three different sets of focus groups, the CPRNR heard from individuals for whom planning meant a cash flow forecast that focused on their “regular bills” and “income.” Their goal was to be able to pay their regular bills, and for some it was a short-term rather than a long-term goal. When the issue of risk and uncertainty was raised, some responded, “I will deal with it when it happens.” The gaps in planning are bigger than I had imagined, and this goes hand in hand with a common goal of not spending down assets.

**Many People Do Not Want a Plan to Spend Down and Use Assets**

The CPRNR has been very focused on the question of how one might systematically use assets over the retirement period and not use them up too quickly. The CPRNR has discussed lifetime income and other spend-down strategies.

Most recently, the CPRNR sponsored a project looking at the application of efficient frontier theory to retirement income. But, in focus groups, some of the participants have indicated that they want to hold onto assets. They do not embrace any spend-down plan, and they are withdrawing the required minimum distribution from their tax-protected retirement funds only because they are required to do so. To some, these withdrawals when spent are not considered a spend-down of assets since the withdrawal is required.

**Shocks and Unexpected Expenses Include a Wide Variety of Items**

The 2015 focus groups and risk survey focused on financial shocks and unexpected expenses. The most common items of concern mentioned in the focus groups were un-
expected home repairs and dental expenses. I expected that if people could anticipate these expenses, they could set up reserves for them. But some people view items that are not part of their regular monthly payments as unexpected expenses.

Findings From 2015 Research About Americans’ Finances

The 2015 Society of Actuaries’ post-retirement risk survey results with regard to risk concerns and risk management are generally consistent with prior years. Some highlights of the survey results are:

- The top concerns with regard to postretirement risks are inflation, health care expenses and paying for LTC. Repeated iterations of the survey—this is the eighth biennial survey—have consistently identified these top concerns, although the order changes.
- Retirees and preretirees seem to have relatively little concern about some important risks such as fraud.
- Preretirees continue to be more concerned than retirees about most risks.
- Retirees retired at a median age of 60, substantially earlier than the age of 65, which is the median age that preretirees say they expect to retire. This finding is repeated in several surveys. Working in retirement is another area where preretirees’ expectations differ from the actual experience of retirees. While many preretirees say they expect to continue working longer, most current retirees have not actually done so.
- Gaps in planning and shorter planning horizons at retirement than are best practices for comprehensive planning continue.
- The top risk management strategies being used are similar to those found in prior surveys, including reducing spending, increasing savings and paying off debt.
- As in prior years, risk protection products, other than health insurance, are not used very often.

Insights About Planning and Decisions

Disturbing Findings About Dealing With Health and LTC Risk

It is interesting to note that both LTC and health care expenses remain on the “top concerns” list, but the risks associated with these two concerns are very different.

After the age of 65, Medicare covers nearly the entire population for acute health care costs, and most people buy supplemental coverage, which covers the majority of health costs. However, there is no public coverage of LTC except for Medicaid, which offers coverage only to those who have minimal assets and low income.

Few people buy LTC insurance, and private LTC insurance pays for only about 10% of LTC provided in the market. Most LTC is provided informally by family and friends. While the majority of people will ultimately need some assistance, only a small number need major LTC support. But for those who do need major LTC support, the expenses and the impact on the family are often devastating.

Limitations of Planning

The research offers insights into how people planned in general and particularly how they planned for shocks and unexpected events. The focus groups showed that while many are aware of “regular monthly bills” and short-term cash flow planning, they seldom plan for less regular expenses, such as home repairs and dental costs, that could be anticipated and budgeted.

As in prior studies, planning horizons are too short when compared with the rest-of-life expectancy, and there are gaps in planning. Also, risk management products are not well-understood and are infrequently used.

Insights Into Money Management and Debt

The How Americans Manage their Finances paper provides insights into general financial management among adults of all ages.

When asked how hard it would be to pay an unexpected expense of $1,000, less than one-third of respondents said they could easily pay this expense. Only one in seven could easily pay for an unexpected expense of $5,000, and one in ten could easily pay for an unexpected expense of $10,000. In my view, this information is disturbing when considered together with the information on short planning horizons and lack of planning for “unexpected” expenses that should be expected.
Half the respondents (52%) said they had no investments, and 21% said their investments were professionally managed. Of the balance, 26% managed their investments themselves, and 2% used family and friends. Note that funds in a 401(k) plan were considered to be professionally managed.

Only 3% of respondents had professional help with everyday money management in the last year. Eighty percent said they did not need help, and 13% had help from family or friends.

The vast majority of the respondents (91%) had bank accounts, and 9% did not. Those without bank accounts were more likely to be low income and minorities than those who had bank accounts.

The study also provides insights into use of alternative financial services, such as cash advances on credit cards and payday loans. Sixteen percent used cash advances on their credit cards in the last three years, and 9% had used payday loans in the last year. (Note that cash advances on credit cards and payday loans are very expensive ways to borrow money.)

Debt is an issue linked to the ability to save for retirement as well as to how people manage during retirement. The How Americans Manage their Finances study indicated that many of the homeowner respondents have mortgage debt, including about half of those in their 60s and a third of those over the age of 70. The study reports that 23% of respondents with mortgages have refinanced in the last three years.

More than one-half of respondents who are credit card users carry monthly balancess. For 15% of adults, student loan debt for themselves or their children may persist well into middle age. Note that both surveys include much more information about debt.

**Insights With Regard to Shocks Experienced by Retirees**

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.

As indicated above, many people are poorly prepared for unexpected expenses. Retiree experience with regard to shocks and the unexpected was a major focus of the SOA research. Here are some of the key findings from the 2015 SOA risk survey and focus groups:

- Retirees are resilient, and they 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.
- When asked about financial shocks and unexpected expenses, the two most frequently mentioned items are home repairs and dental expenses.
- Multiple shocks are a much bigger problem than single shocks. About one in five retirees (19%) 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 in many different areas.
- Financial shocks reduced financial assets by 25% or more for more than one in three who experienced them.
- More than one in ten who experienced shocks had to reduce spending 50% or more as a result of those shocks.
- About three in four retirees believe they are able to manage at least somewhat well within their new financial constraints.
- Retirees could make adjustments and deal with unexpected expenses in a number of areas, but not divorce after retirement or major LTC events that required paid LTC. Both of these shocks had a major impact.
- Health bills for those who purchased a Medicare supplement in addition to Medicare usually were well-covered. Of course, policyholders typically pay substantial premiums, including Medicare Part B and D premiums, in addition to the supplement premium. Medicare and Medicare supplements do not cover dental expenses, so dental expenses were reported as
unexpected by a number of respondents, but health care costs were usually not an issue. There can be exceptions to this for any treatment not covered.

Other SOA-sponsored research showed a different perspective on shocks. A project using stochastic modeling of an average American showed very large differences in what was needed at the median and what was needed in order to be 95% confident of success. Shocks were the major driver of the big differences, and low-frequency, high-severity events such as LTC were particularly important. This research also showed that if one models retirement success without taking shocks into account, there is a major chance of running out of money.

Financial stresses are related to shocks. The How Americans Manage their Finances study offered insights into financial stresses, which affect productivity and workplace performance and reduce the chance that people will save for retirement. They also increase the chance that financial resources set aside for retirement will be used prematurely. The study asked respondents whether their household had experienced financial stress in the last three years, and 56% said they had experienced no major financial stress. For those aged 18-39, the biggest issues were losing a job and/or having hours reduced (28%), having a significant health issue (12%) and providing help to family members or having family members lose a job (8%). Results varied greatly by age. Some highlights for those aged 40 and higher are shown in the table.

The study also explored how people managed the shock and whether they got help from others, borrowed, withdrew from savings, cut expenses or did not pay the amount owed. In the 40-49 age range, the largest group (60%) cut expenses, 28% withdrew from savings and 26% got help from others. Fourteen percent borrowed using a credit card, 10% borrowed using payday lending and 16% did not pay the expense owed.

**Employer Support for Retirement Wellness**

Programs to support retirement wellness can be a vital part of an overall benefit program. Employers can support retirement wellness through the design and communication of their benefit programs, providing software and tools to help in planning and decision making and offering general financial and retirement wellness education and programs to provide decision support and advice to employees.

**Benefit Program Design**

Some big issues to consider in designing a program are workforce analysis, understanding participant goals and having a sense of resources available to support retirement wellness. An analysis might include understanding workforce demographics, resources workers have for retirement, worker knowledge about retirement and how they are planning for retirement. This helps to establish a foundation for the employer’s program.

There are several major decisions to be considered in program design, including how much support the employer will give to saving, whether to focus on specific demographics, how to encourage people to start or increase their savings, and risk management. Benefits are often influenced by competitor practices.

Enrollment strategies can influence how many people participate and how much they save for companies that have shifted to defined contribution (DC) approaches to retirement asset accumulation. They commonly use automatic enrollment; however, other strategies also can encourage participation. Some of the major issues with autoenrollment are whether it will be used only at initial eligibility or also used for nonparticipants later on and the amount of the autoenrollment contribution. Autoescalation is a way to encourage gradual increases in the amount being saved.

Employees have a variety of risk management needs, including disability protection while working, health insurance during retirement, an LTC benefit and programs to mitigate longevity risk. Plan sponsors may decide to take an active role in such risk protection or to be hands off. An active role may include offering the benefits, either on a company-paid, shared-cost or voluntary basis, or providing information about the benefits but not including them in the benefit offering. Plan sponsors may decide what to do about each risk separately. My view is that employers often have a much more important role to play in events...
that occur while at work than after retirement. Employers that tend to retain employees for many years are more likely to play an active role postretirement.

A big question for the future is whether employers whose primary retirement plans are DC plans will take a more active role in postretirement benefit management. The report *The Next Evolution in Defined Contribution Retirement Plan Design* lays out the case for a more active role and provides input into what it might be. It provides for a menu of income options together with the appropriate administrative and communication support.

I view preretirement disability as a special situation. Failure to offer long-term disability (LTD) coverage is setting up those employees who become longer term disabled for major problems both before and after retirement. Failure to include some added disability protection linked to retirement benefits will also mean that employees with LTD events are likely to have a very difficult time in retirement.

**Issues for Broader Employee Education Supporting Retirement Wellness**

These ideas go beyond education about the company’s benefits, and several of them reach beyond traditional retirement education. They are ideas for the company that wants a stronger presence in retirement wellness.

In each of the SOA surveys, the results showed substantial gaps between preretiree expectations and retiree realities, particularly in areas related to work and retirement. Helping individuals create more realistic expectations could be a worthy goal for education.

Social Security claiming can be particularly important for many families as Social Security is the only source of regular income for many and the major source for many more. The majority of people claim Social Security early even though there may be major financial advantages to claiming later. Employers that do not want to make recommendations can point out the importance of the issue and direct them to resources for help.

Employers also can help employees and retirees be smarter about debt. Debt in retirement, including student loan debt, has been increasing in recent years, and there has been growing concern about the impact of debt on retirement financial security. Here are some debt-related items employers can encourage employees to consider:

- Think about the implications of debt in retirement, and look for ways to keep it to an absolute minimum.

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**TABLE**

| Financial Stresses Over Last Three Years by Age (Results for Selected Stresses and Ages) |
|-------------------------------------------|--------------------------------|-----------------|-----------------|-----------------|
| Type of Stress                            | All  | Aged 40-49 | Aged 60-69 | Aged 70+ |
| Experienced no stress                     | 56%  | 51%        | 67%         | 72%         |
| Lost job or had work hours reduced        | 21%  | 23%        | 11%         | 0%          |
| Had significant health issue              | 12%  | 16%        | 12%         | 8%          |
| Provided help to family members or family member losing job | 8%   | 9%         | 8%          | 6%         |
| Lost spouse/partner                       | 1%   | 2%         | 1%          | 5%          |
| Had unpaid taxes                          | 4%   | 5%         | 3%          | 3%          |
| Had mortgage balance higher than property value | 3%   | 6%         | 1%          | 0%          |

*Note:* Total group includes ages 18 and up.

• Avoid carrying credit card balances, and pay them off quickly. Cash advances on credit cards and carrying credit card balances are expensive. Interest charges are very high and can affect one’s ability to save more for retirement.

• Avoid payday loans, which are also extremely expensive, if it at all possible.

• If saving in a 401(k) means carrying higher outstanding balances on a credit card, it may not be a good idea. Pluses include tax deferral, the match (if available) and the chance to participate in plan investments. Stopping contributions may require waiting for a while before joining again. Using a 401(k) plan loan may or may not be a better choice than higher credit card debt. The higher interest costs may be greater than the pluses. And if an employee can defer making purchases or spend less while continuing to save, that may be the best choice. Help employees understand the issues and strongly encourage them to do the math, including taxes.

Housing is a major expenditure for most households, and whether to pay off a mortgage is an important financial decision as one nears retirement. The following are issues to consider:

• Mortgage and housing decisions affect other options later. They may affect a retiree’s ability to transition to senior housing if needed. A retiree who needs LTC or has other major problems can tap into home equity during retirement. Tools and information to help in thinking through these kinds of issues can be valuable.

• Conventional wisdom holds that it is good to pay off a mortgage before retirement, but not all experts agree. Help your employees focus on this issue, and give them resources to do the evaluation. Factors to consider include asset liquidity with or without the mortgage and the interest rate on the mortgage. Individuals who won’t have liquidity if they pay off their mortgages may want to retain some mortgage debt. Paying off the mortgage generally means less money in other investments. Also, some experts feel strongly that if individuals can earn more after-tax on investments than the interest paid on their mortgages, they are smart to continue the mortgages. However, remember that the investments may be subject to considerable risk. Employers also can provide resources to help employees or retirees think through these issues.

• Refinancing can be viewed as a magic bullet, but it can have downsides. People who refinance will probably extend their repayment periods and may end up paying more. A retirement wellness program may include information to help retirees do the math and evaluate the issues so that they can think carefully before committing to mortgage payments long into retirement.

Fraud is an important risk facing all Americans. The SOA research shows relatively low levels of concern about fraud, although the news regularly includes items about compromised credit cards and online scams. Fraud awareness is part of retirement wellness. Employers may wish to point employees to good outside resources, such as the Consumer Financial Protection Bureau, for help in this area.

A Word About Opportunity and Caution

As we think about these issues, we should remember many resources and tools are available in the public domain, on the Internet as well as for sale. Some come from government, nonprofit sources and business organizations. Some are good, and some are incorrect, biased or both. The problem is not finding material but rather figuring what is appropriate and offers good advice. Employers can definitely help but, of course, they must also be careful. Employers also are concerned about potential fiduciary liability. This is an evolving area with new rules recently issued by the U.S. Department of Labor (DOL). Employers should conduct a legal review of any new program to make sure it meets applicable requirements and does not open them up to liability.

Helping Employees Improve Planning

Employers can take an active role in supporting and encouraging employees to plan by providing tools, information and direct support. The same issues that are addressed in benefit plan structure can also be addressed in planning, whether the employer offers a direct means of addressing the issue or not.
There are a number of things to pay attention to:

- Employers can play a key role in helping employees learn about the importance of planning and the need to focus on the long term. Employers can tell employees about the often overlooked issue of life expectancy, the uncertainty surrounding it and the need to plan for the rest of life.
- Employers can help with other basics, including reminding employees of the need to replace their income in retirement. They need to have a plan and work out the numbers. While this seems obvious, the research shows that too many people are not focusing on these issues when they think about retirement. SOA focus groups have repeatedly included people who decided to retire without working out the numbers and others who worked out limited numbers but have not done bigger picture planning.
- Every situation involves uncertainty. Every retirement involves risks. There are a variety of different ways to deal with uncertainty in planning. At a minimum, it is desirable to recognize risks and uncertainty, but many personal plans do not.
- When helping employees plan, employers can point out that the unexpected happens to most people. Many will need LTC, and some will develop a serious disability while still working. Some may experience investment losses or fraudulent schemes. These are all much bigger events than home repairs and dental costs, much less certain and harder to handle. As people plan, it is important to think about risk, whether there are insurance products that can help (such as disability insurance) and how they propose to handle it.
- Everyone needs an emergency fund, but the research shows that many people do not have much of one. Employers can help employees think about that need. I recommend having a minimum of $5,000 in an emergency fund that should be immediately accessible.
- One more thing to remember is that things change over time. Most people know that insurance premiums and grocery bills are likely to increase year after year. While they might not increase every year, they seem very likely to be higher than five years ago and often by a lot. Inflation is only one type of change. Personal capabilities, both physical and mental, may well change. People who want to work in retirement may find that their capability to do so decreases over time. Interests also may change. People may want to travel a lot for a while and not much later on. One member of the couple will inevitably die or become ill. Personal plans should be adaptable to respond to such changes.
- Making a retirement plan involves many decisions, some quite complex. The employer-sponsored retirement wellness program may include information to help employees think about what decisions they need to make. Third-party information can help, such as the SOA Decision Briefs, which help people make decisions as they near retirement.
- Tools can be a big help in planning. Employers can provide software to help employees do calculations, but there is a risk in offering access to software. It may be misinterpreted or used when it does not address the situation appropriately. For example, Social Security claiming strategies are a key issue for many people. The last SOA study on planning software found major problems with the way it handled Social Security strategies. At the extreme, one package used an average amount for everyone. Software that does not use actual wage histories will give an approximation, which can be very inaccurate for some people. Software commonly considers the individual only but not the house-
hold, but results for the household are important. Planning software also may not show the impact of different retirement ages. I recommend providing or helping people find software tools only after vetting them and properly describing their use and limitations.

- Special-purpose software tools may be very useful for specific decisions. 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 to the user or 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. The Department of Labor “Taking the Mystery Out of Retirement Planning” is another example of planning software that can help employees get organized.

- Many middle-class Americans do not have access to a financial advisor. More affluent individuals are more likely to use financial advisors. Some plan sponsors choose to include some advice and decision support with their benefit offerings, and there is a wide range of options for doing so. Decision support is particularly important for companies that offer DC plans as their primary retirement vehicle.

- Robo-advisors are an increasingly popular form of advice and should be vetted for some of the same issues as those considered when evaluating software.

Creating Better Work Options

A growing number of people say they want to work as part of their retirement, and some people are retiring later. For people without adequate financial assets, age at retirement is a key issue in how well they can live in retirement. Yet, research has consistently shown that preretirees expect to retire at a much later age than current retirees actually retired and that many more people expect to work than actually do.

In addition, research shows major gaps in knowledge about working and retirement. An employer wanting to help employees have a successful retirement can help build realistic expectations about work and retirement as well as retirement timing. Depending on the type of organization, the employer may also create work options to help individuals work on a limited basis.

The employer can also help employees be prepared for the employment that may be available to them. Having up-to-
date skills is an important issue, and older employees should not be shut out of training if they may continue working.

Conclusion

Retirement wellness is many faceted. The individual, the business community and public programs are important contributors to retirement wellness. While employee benefits and programs to facilitate working at older ages are very important, there is much more to the story. Research shows gaps in knowledge, expectations and actions that help to identify steps employers can take to support retirement wellness.

Endnotes

1. The Sightlines Project was conducted by the Stanford Center on Longevity with a report, Seeing Our Way to Living Long, Living Well in 21st Century America, published in February 2016. The Society of Actuaries (SOA) was one of the project’s supporters.


3. The SOA research study models one person and models typical individual situations. The Employee Benefit Research Institute (EBRI) also does stochastic modeling focusing on retirement adequacy and using a similar range of risks. The EBRI model, however, focuses on the population as a whole and how many people will have adequate benefits. The SOA model provides insights into the amount of money an individual will need for retirement. The majority of stochastic retirement models do not include health and long-term care risk in the stochastic modeling. It is common to limit the stochastic treatment to economic variables.

4. The 2009 SOA Retirement Planning Software Post-Retirement Risks Report (www.soa.org/research/research-projects/pension/retire-planning-software-post-retire-risk.aspx) updated the first study on retirement planning software. Although the study is several years old, the issues raised remain valid. The study reminds us that while software is very valuable, there can be important issues with regard to assumptions, scope, etc. Much of the planning software focuses on investment and savings issues and may not address key issues facing employees without substantial investment assets.

5. The Segmenting the Middle Market study can be found at www.soa.org/Research/Research-Projects/Pension/research-seg-middle-market.aspx. The study estimates assets—financial and nonfinancial—for the middle market and the mass affluent for two age groups that are nearing retirement. The results drove a recognition that financial assets are a small part of the picture for many Americans. The study was done twice, once with 2004 Survey of Consumer Finances data and once with 2010 data. It was decided that the conclusions would be similar with 2013 data, and it was not updated for that data.

6. 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.

7. The efficient frontier is a curved line that graphically represents the maximum expected investment returns for different amounts of risk. An efficient portfolio is a collection of investments that provides the greatest return for a given level of risk or the lowest risk for a given level of return.

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

9. Note that this research covers preretirees and retirees, and the age range is 45 to 80.

10. Note that this research covers adults of all ages starting at 18.


16. Three sources of information to help employees evaluate different Social Security claiming options are the Consumer Financial Protection Bureau (CFPB), the National Academy of Social Insurance (NASI) and SOA. CFPB has a tool to enable employees to understand how income changes over time. Both NASI and SOA have information designed to help individuals understand the issues.

17. A caution has been raised that this is an area where there is a potential for advisor conflict of interest.


19. 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 can be found at www.dol.gov/ebsa/publications/.

20. The SOA report Investment and Retirement Advice: A Guide for Employees describes a range of approaches employers can take to help support employee decisions and offer advice. It includes questions to ask and discussions about due diligence in choosing an advice approach.

21. The Department of Labor is implementing new rules for fiduciary responsibility, and this may lead to changes in marketplace offerings.