The International Foundation financial education and retirement security initiative focuses on helping plan sponsors help participants and their families achieve a secure retirement. This article, which references materials developed by the Society of Actuaries (SOA), appears in Benefits Magazine as a part of that initiative. Julie M. Stich, CEBS, Associate Vice President of Content at the International Foundation, is a member of the SOA Committee on Post-Retirement Needs and Risks.

Filling in the Gaps:

Helping Employees Plan Better for Retirement

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When planning for retirement, many people fail to consider issues such as retirement age and disability and nonfinancial aspects including health and social engagement. The authors provide insight on those concerns and suggest retirement planning resources that employers may share with employees.
A comprehensive approach to help employees plan for and manage their retirement is most effective when it includes a solid foundation of a good employer-sponsored retirement program. This article focuses on some of the other things an employer can do. There is a growing recognition that while some employees have plenty of money to retire well, many people in the United States do not have enough for the retirement that they would like. Society of Actuaries (SOA) research has shown that there are persistent gaps in retirement planning. SOA focus groups have repeatedly shown that people plan by looking at short-term cash flows and fail to consider many issues. Research from the Sightlines Project tells us that success in retirement depends on more than just the money and entails a combination of financial resources, health management and social engagement.1

A new view of retirement planning is emerging. Retirement planning is being seen as part of a broader financial wellness initiative. There is an increasing recognition that people who are having difficulty managing their month-to-month finances are not well-positioned to save for retirement, and a substantial percentage of U.S. residents—72% according to the American Psychological Association Stress in America survey2—are under regular financial stress.

This article identifies some key gaps in planning, provides ideas to fill the gaps and references unbiased consumer-friendly literature that employers could use to support their financial wellness and planning efforts.

Materials to be referenced include a new guide from SOA and Financial Finesses entitled Retirement Health and Happiness that lays out key issues people face in preparing emotionally for retirement and offers tips for emotional and physical health and staying connected to others. SOA also offers a series of decision briefs to help people focus on the questions they need to ask. Six of them have just been updated and are now available. These will be mentioned as well.

Challenges Faced in Planning

These are examples of the challenges and barriers people face with regard to retirement planning.

Planning Is About More Than Money

Many retirement planning systems are primarily focused on financial issues and how much to save. It is important to bring in a broader set of issues. A review of Retirement Health and Happiness is a good way to start people on this path.

Many People Do Not Save Enough

Only 18% of workers in the U.S. feel very confident about having enough money for a comfortable retirement, according to the Employee Benefit Research Institute (EBRI) 2017 Retirement Confidence Survey.3 With the shift to defined contribution plans, personal choices and actions are increasingly important in facilitating retirement security. Employees without access to employer-sponsored plans are much less likely to have good retirement resources. Those who have access must still make good decisions and be disciplined about accumulating their retirement savings. The U.S. Department of Health and Human Services offers these retirement planning resources: www.hhs.gov/aging/retirement-planning-security/index.html.

Retirement Age Really Matters

The main strategies available for people who do not have enough saved for retirement as they reach their intended retirement age are to work longer and retire later, work during retirement, claim Social Security later and/or reduce expenses. It is important to evaluate different options, but the SOA focus groups indicate that some people are retiring without doing the math. AARP offers this retirement calculator to help crunch the numbers: www.aarp.org/work/retirement-planning/retirement_calculator.html.
**People Often Have Too Short of a Planning Horizon**

Doing the math involves addressing a lot of different issues, but often some of them are not considered. Retirement planning is about making resources last for the rest of life, but many people tend to focus on their ability to pay their bills in the next two or three years without doing a long-term retirement calculation that includes risks. SOA focus groups have indicated that short-term cash flow planning is common and that some respondents focus on risk by indicating that they will “deal with it when it happens.” Planning also is about nonfinancial issues like physical health, social engagement and community service.

**People Are Living Paycheck to Paycheck**

People who are living paycheck to paycheck often do not have adequate emergency savings. A report from the Board of Governors of the Federal Reserve System found that 53% of survey respondents indicated that they have not set aside an emergency or rainy-day fund that would cover three months of expenses.4 The normal challenges people face every year, such as home repairs, automobile problems or an uncovered medical or dental expense, can easily turn into major problems. It is difficult for people in this situation to save for retirement. Those who do have retirement savings may be tempted to use their retirement funds to help with current problems. Normal month-to-month cash management and keeping an appropriate emergency fund are important steps toward being ready to save for retirement and preserving funds already saved.

**Huge Gaps in Disability Protection**

Only about 30% of U.S. workers have long-term disability protection beyond Social Security. A long-term disability can derail retirement security in a variety of ways. When people become disabled they need to replace lost earnings and potentially pay for high medical expenses. Not only could this lead them to stop saving for retirement, but they also may need to withdraw money from existing retirement savings. A disability also can affect other income-earning family members who may have to get involved in caregiving. Life Happens, a nonprofit organization, offers this tool for estimating the income needed in the event of a disability: www.lifehappens.org/insurance-overview/disability-insurance/calculate-your-needs/.

**Social Security Claiming Strategies Are Not Carefully Considered**

Social Security is the largest and, in some cases, the only source of retirement income for many low- to middle-income people in the U.S. Since the age at which a person claims Social Security affects lifetime income, workers should consider carefully when to collect their benefit. Retirement benefits can be claimed as early as the age of 62 or deferred until the age of 70. Claimants who defer collecting Social Security until 70 can receive up to 75% more in monthly benefits than if they claimed at 62, yet 71% of retired workers receive reduced benefits because they claim their benefit prior to full retirement age.5 The Consumer Financial Protection Bureau (CFPB) offers the following resource for deciding when to claim Social Security: www.consumerfinance.gov/retirement/before-you-claim/.

**Going Beyond Money**

SOA research has repeatedly shown that there are many gaps in retirement knowledge and planning—some involving money and some not. At the same time, employee benefits are evolving in a manner that makes employee decision making more important. SOA and Financial Finess recently released Retirement Health and Happiness, a new publication designed to improve financial literacy. This is the first in a series of educational publications designed to help Americans do a better job of retirement planning. The main message in this publication is that it takes more than money to enjoy a successful retirement. The publication offers guidance and thought-provoking questions designed to help the reader emotionally and physically prepare for a successful transition into retirement. It attempts to take some of the same issues that are raised in the Sightlines research and bring them down to actionable steps that people nearing retirement can take. For each topic, it raises issues and provides ideas.

In response to the issue of social engagement, the guide raises the question, “How do I stay emotionally healthy?” Tips include joining a club, association or religious organization for people looking for an opportunity to connect with others who share interests. Other tips include volunteering or engaging in a meaningful hobby. For people who do not want to live alone, the guide suggests getting a roommate or a pet. In addition, resources such as websites are provided to make it easier for the reader to take action. For exam-
In response to the issue of healthy living, eight tips are provided: four that address activity and four that address healthy eating habits. Suggestions for activity include gardening and yard work, joining a gym or yoga class, and outdoor activities such as walking, jogging or riding a bike. The guide also offers suggestions on types of people, such as counselors or personal trainers, who can help.

This series is designed for employers to give to employees as part of an employee benefit or retirement planning program, as well as for members of the public to use for their own education. The suggestions are designed to be realistic and include a range of ideas to help people focus on things they can do. It can be used repeatedly, allowing readers to work on one or two action steps at a time, since it generally does not work well to implement too many things at once.

Support for Retirement Decisions

SOA has published a series of twelve Decision Briefs in response to gaps in consumer knowledge about retirement issues and risks. Each brief provides information and resources on a specific retirement issue to help facilitate better retirement decisions. The briefs offer a broad discussion of the issues and considerations for each decision. They do not make specific recommendations, and they are written without bias toward any specific products or approaches.

The briefs cover both financial and nonfinancial decisions, including considerations on when to retire, housing, Social Security claiming, taking a lump sum from a qualified pension plan, issues pertinent to women, medical insurance choices, how to invest assets and whether to try working in retirement. All publications can be downloaded and are available to the public free of charge. Here are three examples of the briefs.

1. When to Retire

The timing of retirement can have a significant impact on monthly retirement income and the likelihood of outliving retirement savings. Choosing to retire later in life can mean higher Social Security benefits (if claiming is delayed), higher pension benefits (if available), more years to accumulate savings, fewer years to distribute saving, and less time before Medicare eligibility (if retiring before the age of 65).

2. When to Claim Social Security

Social Security can be the main, or only, source of income for many people. Monthly benefits are about 75% greater if a person claims (i.e., starts to collect a Social Security benefit) at the age of 70 rather than 62. The claiming age also affects the benefits payable to spouses and surviving spouses. Unfortunately, many people claim at early ages, and few adequately evaluate their options.

3. Where to Live

Housing can be one of the biggest costs in retirement and a major factor in happiness. Home equity is frequently the largest asset in a middle-income retiree’s retirement portfolio. Housing affects access to transportation, health care and community services, and some housing offers support services on site. Most people would prefer to stay in their homes, if possible. There are huge financial and personal issues involved in this choice, and there are many options about what to do.

What Else Can Employers Do

In addition to providing retirement benefits and education, employers can offer modeling tools and resources that allow employees to perform scenario testing so that they
can see the potential effect of their decisions before making them. Since problems with cash flow and debt are often a barrier to saving for retirement, employers can also assist employees with attaining retirement goals by sponsoring a financial wellness program that extends support to a broader range of issues. This includes offering a financial wellness assessment to help employees identify potential financial vulnerabilities.

Conclusion

The way employers support retirement and lifetime security is evolving. A good life in retirement is linked to health behavior and social engagement, as well as financial resources. Major decisions are also important to success. There is a growing recognition that poor cash flow management and debt contributes to financial stress and creates a barrier to successful saving for retirement. Enhanced education and financial wellness programs can help employees and retirees find good paths and make good decisions.

References

Note that all of the referenced research reports and consumer information from the Society of Actuaries (SOA) are available for download at the SOA website: www.soa.org/research-reports/aging-ret-res-report-list/.

Society of Actuaries Employee and Consumer Information Publications
- Retirement Health and Happiness, Society of Actuaries and Financial Finesse, 2017
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- AgeWise Infographics, Society of Actuaries, 2016 and 2017
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- Post-Retirement Experiences of Individual Retired for 15 Years or More, Society of Actuaries, 2016

Employee Benefit Research Institute
- Financial Wellness Essay Collection, Society of Actuaries, 2017
- The Sightlines Project—research project from the Stanford Center on Longevity on what contributes to good, long lives. Available at http://longevity.stanford.edu/the-sightlines-project/
- Employee Benefit Research Institute
- Retirement Confidence Survey Series

Endnotes

1. Research from the Stanford Center on Longevity with support from the Society of Actuaries.


6. The Decision Briefs can be found under Managing Retirement Decisions as part of the Aging and Post-Retirement Risks Research Page. See www.soa.org/research-reports/2012/research-managing-retirement-decisions.