What Retirees Do and Say: Insights About Decumulation Strategies

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Actuaries, advisors, plan sponsors and financial service companies spend a lot of effort designing and promoting a variety of retirement asset decumulation strategies. A fundamental assumption underlying most of these strategies is that retirees will develop a longer term plan for gradually spending their assets. Society of Actuaries (SOA) research includes biennial surveys of retirees and a variety of focus groups and in-depth interviews at various stages of retirement. This research is targeted at the middle-income American and offers some important insights in this regard. Many retirees are trying to hold onto assets rather than having a plan to gradually spend them. Rather than longer term planning, many retirees are focused more on the short term. Retirees and preretirees express preferences for a variety of risk management strategies. This article will highlight survey findings that provide insights into how retirees think about planning and what they are doing that is relevant to their spending and decumulation strategies. Findings will be drawn from a combination of the SOA Survey of Post-Retirement Risks, focus groups with retirees retired less than ten years and those retired 15 years or more, and in-depth interviews and other research with individuals aged 85 and over. The gaps in planning and strategies provide clear information about opportunities but also challenges that are important for stakeholders working on decumulation strategies.

How Retirees Plan and Make Decisions

Economically sound retirement planning paradigms are based on the idea that resources need to last a lifetime and should be spread over that period of time so they can be applied to meet needs and desires. Trade-offs should focus on the longer term, considering such factors as the time value of money, inflation, health and long-term care costs, taxes, predictable and unpredictable expenses, risks and income. This is all very complex.

But the reality of planning is quite different. While tradi-

AT A GLANCE

- Research shows that many retirees are trying to hold onto their assets rather than having a plan to gradually spend them.
- Retirees often fail to plan for longer term risks such as inflation, longer life expectancies and health risks when calculating retirement expenses.
- Most people base their decision about whether they can afford to retire on their ability to pay monthly bills from Social Security, pension benefits, work income from a spouse or expectation of part-time work.
- Retirement risk management strategies vary significantly by income levels.
tional models can work well for people who focus on the longer term, they do not resonate with people who are focused on the short term. SOA research indicates that for many individuals, planning is based on estimating expected cash outflows and expected income over the next few years and keeping the two in balance. While many planning models are based on the idea of maintaining a standard of living, the research shows that many retirees are resilient and willing to adjust expenses when necessary.

A series of SOA-sponsored focus groups and in-depth interviews looks at different stages of retirement. The studies are:

- **2013 focus groups.** The Decision to Retire and Post-Retirement Financial Strategies: A Report on Eight Focus Groups. This study of individuals retired less than ten years examines the process of deciding to retire and views on managing assets and finances after retirement. The study was designed specifically to examine those who were not forced to retire because of poor health or disability. The retirees were resource-constrained and were selected based on having an income from defined benefit (DB) pensions plus rental income of not more than $2,500 per month, and assets were limited to $400,000.

- **2015 focus groups.** Post-Retirement Experiences of Individuals Retired for 15 Years or More. This study seeks to understand how middle-income retired Americans and Canadians manage their assets and spending decisions over the long term, whether their decisions are consistent with what shorter term retirees said and how shocks affect the retirees. As in the prior study, the retirees were resource-constrained and selected based on having an income from DB pensions plus rental income of not more than $2,000 per month, and assets were limited to $350,000.

- **2017 research on retirees aged 85 and over.** In-depth interviews are reported in Post-Retirement Experiences of Individuals 85+ Years Old. This study of people in the United States and Canada seeks to understand how habits and behaviors from earlier in life played out in the later years of retirement, how things change between age groups, and what challenges those aged-85-and-over face. The in-depth interviews combine some interviews with individuals aged 85 and older, some with their children and some with both together (marked as dyads). The interviews were followed up by two surveys, one of the children of individuals aged 85 and over and one of the individuals themselves. For this study, there was a limit on assets of $400,000.

These studies should be considered together with the SOA 2017 Risks and Process of Retirement Survey and prior surveys in the series. Nine surveys have been completed, with surveys conducted every two years. While some questions are repeated, each survey has different topics of emphasis. The surveys include respondents at all asset levels and are designed to reflect the asset distribution of the aged U.S. population.

**Results From the Focus Groups and In-Depth Interviews: Insights About Planning, Spending and the Decision to Retire**

These three studies, like other SOA research, showed a relatively short planning horizon and very little longer term planning. The studies offer a progression from recently retired individuals to more long-term retired and then to those aged 85 and over. One of the goals of the later studies is to understand whether the actions and strategies used earlier in retirement would work later in life and, if not, why not. The findings show:

- Planning is often focused on expected cash flow in the current year. Participants often did not factor inflation into their plans. This was a consistent finding in all three studies.
- Many of the 2013 focus group members had not made longer term calculations to manage their retirement. This was a consistent finding in all three studies.
- The risk surveys also showed gaps in knowledge about longevity, as evidenced by the retirees’ short-term planning horizons. The focus group members didn’t think much about their life expectancy but acknowledged that their health was the biggest threat to their security. The focus group members and those interviewed in 2017 for the most part did not explicitly plan for shocks and longer term risks. The aged-85-and-over group seemed to be aware of their shorter longev-
ity, and this was evidenced by less concern about their financial security.

- In all of the studies, the most common risk management strategies appear to be asset preservation, limiting debt and controlling spending. The respondents often do not focus on financial risk management products except for health insurance, and many are not well prepared to deal with substantial shocks. A few had long-term care insurance but did not have a good feel for its adequacy. This is consistent with the survey findings.

- Some of the 2013 focus group members use financial planners or advisors, and those who do use planners reported getting value from them. However, they did not make a clear distinction between getting advice from a financial planner versus an investment advisor/broker. The individuals who were getting help at the age of 85 and over got most of their help from family members. If they used financial advisors when they needed more help, their children often started to deal with the advisors on their behalf.

The 2013 study focused heavily on the decision to retire. The assessment of the financial ability to retire tended to be very simplistic, unless the person worked with a financial advisor. Of those who worked with a financial advisor, most did not ask the financial advisor whether they could afford to retire. Advisors who offered an opinion often did not provide a detailed analysis or a financial plan.

In most cases, people based their decision about whether they could afford to retire on their ability to pay their monthly bills from Social Security, pension benefits, work income from a spouse or their expectation of part-time work. They expected inflation but typically did not include inflation in their calculations of whether or not they could afford to retire. Many report modest expenses. Some made the decision on their own and did not discuss it with their spouses before making the decision. Some did not do any calculations but relied on intuition and their experience to tell them whether they could pay bills. Most own their homes and, in many cases, mortgages have been paid off. The later studies showed similar results. Planning and management decisions at retirement and early in retirement are consistent with what happens later in life.

In the 2013 study, most members were trying to maintain their asset levels. They were either not spending any of their accumulations or only skimming off earnings. Once they reached age 70½, they took the required minimum distributions (RMDs). They did not want to have a plan to gradually spend down assets. The use of the RMD as the primary method of asset withdrawal persists throughout retirement.

The main reason for maintaining assets is the fear of incurring any emergency or health care expense that will require spending from assets. Most have a desire to retain assets for a variety of reasons, including concern about health care costs and inflation. They also have a strong desire to stay in their homes and an aversion to using home equity for living expenses.

Many of the 2013 focus group members indicated that they retired after simply calculating that they had enough income to pay for basic expenses or somewhat more. Very few considered any trade-offs of how additional work would have translated into more financial security. Very few considered the strong likelihood that inflation would increase their cost of living as they age. The 2013 focus groups included people who had been retired up to ten years, and some were already experiencing these higher costs. The 2015 focus group members stressed frugality, and cutting costs has been a major method of dealing with inflation, unexpected events and changes over time.

It should also be noted that the 2013 focus group participants exhibited very little planning or use of sophisticated strategies for dealing with financial risks. Indeed, some believed that because “anything can happen,” any assessment of risk was not worthwhile. The strategy used most often is to adjust to events as they happen (often while also holding onto assets as long as possible in order to have a cushion).

The 2015 focus groups explored shocks and unexpected expenses that individuals who had been retired 15 years or more had experienced and the impact they had caused. That research indicated that the most common unexpected expenses included home repairs.
and major dental work. Many retirees dealt with some of the shocks quite well, but some shocks, such as long-term care, divorce after retirement and children who needed ongoing help, were a much bigger problem. Multiple shocks were a bigger problem than single shocks. The group members were often frugal, flexible and resilient.

The findings from the in-depth interviews with individuals who were aged 85 and over were generally consistent with the focus groups conducted earlier. Most were satisfied and managed with what they had. The biggest change for the 85-and-over group was that many more needed help as they aged. Family members were a common source of help with tasks such as driving, shopping and housework. Family help was often provided but not planned for. A need for long-term care was the biggest problem experienced by this group. Where there is a major long-term care need, family is often the first line of defense, but many will need to move into an assisted living facility or a nursing home or have paid help at home. Few have long-term care insurance or the resources to pay for such help.

Taken together, these findings show a picture of these resource-constrained retirees at different stages of retirement as careful and conservative financial managers but with a focus on current cash flows rather than on financial shocks and changes over time. They are quite flexible and able to reduce current spending to match their current income. They are reluctant to draw down assets, saving them for emergencies, shocks or to leave as an inheritance. They limit their spending on travel and meeting their dreams. However, significant long-term care needs can easily derail their plans. Significant inflation also could prove to be a major problem, and we do not know what the future holds in that regard. Most of the retirees’ medical needs were covered by insurance, but a major expense that is not covered could also be a problem.

**Risks and the Reality for Retirees**

The reality faced by retirees sets the stage for retirement risk management. It is important to recognize that this reality is shifting. Some important things to think about include:

- Many people are not knowledgeable about retirement planning. Some are unable to do basic math required for budgeting, and more do not have enough knowledge to understand the impact of investment returns over time.
- People differ greatly with regard to shorter versus longer term focus, family status, health status and economic situation.
- Middle-income retirees have substantially more nonfinancial assets (e.g., home equity and automobiles) than financial assets (e.g., 401(k)s, savings accounts, stocks and bonds). For married households in the 25th to 75th percentile of all households, nonfinancial median assets were 65% of the total, and for middle-income singles, nonfinancial median assets were 80% of the total. Couples have more financial assets than single persons, and some people have little or no financial assets. Investment risks do not apply to those without financial assets. Which risks are important varies greatly depending on asset level.
- For people without many assets, retirement timing is particularly important. Social Security is often the only or the major retirement income source for middle- and lower income Americans, so working longer and claiming Social Security at a later age are important ways to increase monthly income. For some people, these may be the only ways to accomplish this. This is likely to become more important in the future.
- Many people retire earlier than planned. While some people retire involuntarily, that is only part of the story. Many people who retired voluntarily feel they were pushed into retirement. The 2017 Retirement Risk Survey indicates that preretirees are expecting to retire at a mean age of 65, whereas surveyed retirees had retired at a mean age of 58. Major forces driving retirement earlier than desired include difficult work environments, family members needing help and health challenges.
- Many people do not have adequate emergency funds as they enter retirement. Many people also enter retirement with a mortgage or other consumer debt.
- Many of today’s retirees have DB plan income. But that is changing. There has been a major decline in DB plans over the past 25 years and a shift to defined con-
trIBUTION (DC) plans, which has often been accompanied by a decrease in the level of benefits for longer service employees. While DB plans often have embedded longevity and long-term disability protection, DC plans generally lack such protection. Long-term disability is a major threat to retirement security in this environment. Future retirees can expect less income from DB plans and less risk protection attached to their retirement accounts.

- Ages at exit from the labor force are rising slightly. More people are working either part- or full-time as part of retirement, and even more are expecting to work longer. However, many more people expect to work in retirement than actually do currently.
- Middle-income families in the U.S. will often need to reduce their standard of living in retirement.
- Future retirees will have lower DB benefits. Social Security benefits also may be reduced in future years, and Medicare premiums and medical cost sharing are rising. Future retirees may have more trouble paying their bills and making ends meet than current retirees do.
- Periods of higher inflation rates will create challenges for current and future retirees.

Risk Management Strategies

The focus group results work together with the risk survey results. One

voices of retirees

People are comfortable with what they have

“I don’t worry about money . . . Well, I don’t spend a lot, and I watch what I spend. I look at the bank statements, and if it’s going up in the bank, I pull back or I’ll go in and talk to somebody at the bank sometimes.”

—Dyad, elderly female parent with more than $50K in assets, Baltimore, 2017 SOA interviews of age 85+ retirees and their children*

“No, I can afford everything I need. There are a lot of things that I wish I could do, but they are not hindered by finances. They are more hindered by my physical capability.”

—Dyad, elderly male parent with more than $50K in assets, Baltimore, 2017 SOA interviews of age 85+ retirees and their children*

“So I’m perfectly happy. I could even do a lot less than I have.”

—Elderly female with less than $50K in assets, Baltimore, 2017 SOA interviews of age 85+ retirees and their children

Retirees adjust to the situation at hand

“When we retired, we spent/wanted. Now I am spending a greater percentage on needing and not as high a percentage on wanting.”

—Female, Marital Change Group in Chicago, Illinois, 15-year-plus retiree focus groups

“After we had been retired for a while I said, ‘You know, all of a sudden I don’t run out and buy that thing that I was going to get, the extra thing for the garage, or this or that’. You think twice before you make a purchase. I think I still do.”

—Female, Health Decline Group in Chicago, Illinois, 15-year-plus retiree focus groups

“But you’re also capable of adjusting. If you see it’s getting out of hand, you can always just scale it back.”

—Male, Chicago, Illinois, SOA 2013 focus groups with recent retirees

“I think our needs are a lot less than our wants, and we all have way too much stuff that we can live without.”

—Female, Chicago, Illinois, 2015 SOA 15-year-plus retiree focus groups

* SOA = Society of Actuaries
of the questions repeatedly asked in the risk survey series is what strategies participants use for risk management. The top responses are to regularly reduce expenses, save more money and pay off debt. Buying a product to produce regular income has a lower priority. These strategies need to be considered in the context of retirees trying to hold onto assets. Tables I through IV show the strategies already used or planned to be used from the 2011-2017 Society of Actuaries Risks and Process of Retirement Survey series. Tables I and II show the top strategies from 2011 to 2017 for both preretirees and retirees. Table III shows the use of strategies that increase retirement income. Table IV shows all of the strategies considered in the survey for 2017, with results split by income level.

The risk management surveys consistently show the same top risk management strategies, although the order of the responses varies somewhat from year to year. Retirees are much more likely to have already paid off debt and cut back on spending. Preretirees are more focused on trying to save as much as they can. About 90% of respondents have eliminated or plan to eliminate consumer debt. About 90% of preretirees and 75% of retirees have saved or plan to save as much as possible. About 80% of preretirees and 65% of retirees have or plan to cut back on spending. About 75% of preretirees and 65% of retirees have paid or plan to completely pay off their mortgage. The SOA research indicates that preretirees are generally more concerned than retirees, and retirees seem less concerned as they age.

Several of the risk management strategies provide additional regular income. These strategies include choosing an employer plan annuity option or buying an insurance product such as an annuity that will provide additional regular income, postponing Social Security and working longer. Working longer and postponing Social Security are two of the most potentially beneficial strategies for people without much savings, but these options are rarely chosen. For each of these strategies, there is a considerable difference between what preretirees expect to do and what retirees have actually done or expect to do. In 2017, 45% of preretirees and 28% of retirees expected to buy a product or choose an employer plan option that would provide regular income or had already done so. In 2017, 52% of preretirees and 22% of retirees had postponed or expected to postpone taking Social Security. In 2017, 59% of preretirees and 11% of retirees said that they had worked or expected to work longer.

Not only is the percentage of those claiming Social Security later and working longer low, many people re-

Voices of Retirees

Shocks and Unexpected Expenses
“I built a house. The 11th year after I built it (of course their warranty was ten years) . . . there was a leak in my bathroom, and I didn’t know it. I am highly allergic to mold and it cost me $13,000.”
—Female, Dallas, Texas, 2015 SOA 15-year-plus retiree focus groups

“My son had cancer, and I wanted to help him. He asked for nothing and was extremely appreciative. He is also in the construction field, and it is cyclical. It’s up and down. So when I felt he was really having an issue, why not help him now instead of waiting till my demise?”
—Female, Chicago, Illinois, 2015 SOA 15-year-plus retiree focus groups

“My son became very ill, and he had a house. He thought he had insurance that kicked in after he was off so long, and he went right into debt with this house. He was going to lose it, so I had to remortgage my house to get out of that mess, and then he sold it.”
—Female, Kitchener, Ontario, 2015 SOA 15-year-plus retiree focus groups

“The biggest thing is about 18 years ago, I did have a lot of shares of Citigroup, and they were paying like $17,000 a year dividends. That went down to $30.”
—Male, Baltimore, Maryland, 2015 SOA 15-year-plus retiree focus groups
tire earlier than they expected to. Often they are pushed to retire rather than choosing earlier retirement.

In the 2017 SOA risk survey, the mean expected retirement age for pre-retirees was 65, and the mean actual retirement age for retirees in the survey was 58.

Table IV shows survey results for three income categories of preretirees and retirees. (Preretirees are aged 45 or older, and retirees are up to the age of 80.) This table shows all of the ten risk management strategies included in the survey. There are very large differences in results by income level. The superscripts indicate that there is a significant difference from the indicated columns. The two strategies that are most effective in improving the situation for people without significant savings—working longer and claiming Social Security later—are rarely chosen, regardless of income level. Eliminating debt and saving more are chosen more often by those with higher income, whereas cutting back on spending is chosen most frequently by those with lower income. Buying a product that will offer guaranteed income for life is a low-ranked strategy, but it is chosen more often by those with higher income. The majority have not consulted a financial professional for financial or investment advice, but the probability of doing so increases with higher income. The differences in use of various strategies by retirees versus preretirees varies. For example, retirees are much more likely to have paid off mortgages and consumer debt and are more likely to have consulted financial advisors.

### TABLE I

#### Top Four Risk Management Strategies Among Preretirees

<table>
<thead>
<tr>
<th>Year of Survey</th>
<th>Already Done</th>
<th>Plan to Do in the Future</th>
<th>No Plans to Do</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eliminate all of your consumer debt by paying off all credit cards and loans</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>37%</td>
<td>55%</td>
<td>8%</td>
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<tr>
<td>2015</td>
<td>30%</td>
<td>59%</td>
<td>12%</td>
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<tr>
<td>2013</td>
<td>42%</td>
<td>51%</td>
<td>7%</td>
</tr>
<tr>
<td>2011</td>
<td>49%</td>
<td>42%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Try to save as much money as you can</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>47%</td>
<td>44%</td>
<td>9%</td>
</tr>
<tr>
<td>2015</td>
<td>41%</td>
<td>50%</td>
<td>10%</td>
</tr>
<tr>
<td>2013</td>
<td>47%</td>
<td>45%</td>
<td>8%</td>
</tr>
<tr>
<td>2011</td>
<td>52%</td>
<td>39%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Cut back on spending</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2017</td>
<td>30%</td>
<td>50%</td>
<td>20%</td>
</tr>
<tr>
<td>2015</td>
<td>31%</td>
<td>50%</td>
<td>19%</td>
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<tr>
<td>2013</td>
<td>38%</td>
<td>50%</td>
<td>12%</td>
</tr>
<tr>
<td>2011</td>
<td>54%</td>
<td>29%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Completely pay off your mortgage</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2017</td>
<td>28%</td>
<td>49%</td>
<td>23%</td>
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<tr>
<td>2015</td>
<td>23%</td>
<td>47%</td>
<td>30%</td>
</tr>
<tr>
<td>2013</td>
<td>24%</td>
<td>49%</td>
<td>27%</td>
</tr>
<tr>
<td>2011</td>
<td>26%</td>
<td>56%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: Society of Actuaries 2017 Risks and Process of Retirement Survey (Figure 173).

Note: The 2013, 2015 and 2017 surveys were conducted online, and the 2011 survey was a telephone survey.

#### Summary of Common Findings in the SOA Retirement Risk Research

The SOA retirement risk research results can be summarized in several major themes. They offer a broader context for thinking about and responding to the risk management strategies. Repeated themes are as follows:

- Health care costs, long-term care and inflation are the top concerns that both preretirees and retirees report having about post-retirement risks.
- Preretirees are more concerned than retirees about most risks.
• Actual retiree experience differs from preretiree expectations in two key areas:
  1. Timing of retirement—Retirees retired substantially earlier than preretirees said they expect to retire.
  2. Working in retirement—Fewer retirees work during retirement than preretirees who expect to in their own retirement.
• Retirement planning, if done at all, is minimal and not robust enough to manage the long-term risks in retirement. Planning horizons are commonly very short.
• The top risk management strategies among those surveyed were consistently increasing savings, paying off debt and reducing spending.
• The use of risk protection products (other than health insurance) is not very common.
• The general knowledge and understanding of retirement risk among those surveyed has been relatively consistent over time. Gaps in knowledge continue to exist.

What This Means to Employers

Employers need to decide what the purpose of the 401(k) or other DC plan is, understand how employees think about issues related to retirement planning and decide how much the organization wishes to encourage a specific direction. If the purpose of the plan is retirement income, then the employer may wish to include a retirement income default and a menu of options and strongly encourage regular retirement income.6 If it is a combination of retirement income and savings in general, employers may wish to offer some options but not encourage any particular choice. Regardless of the basic purpose of the plan, the employer may wish to encourage adequate savings.

Employers need to decide how much they wish to nudge employees toward focusing on the plan as a retirement plan and a producer of income. Participants usually receive regular statements, and employers have the choice of whether to illustrate the plan benefits as a monthly income as well as a lump sum. Illustrating a monthly income is suggested for employers

### Table II

<table>
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<td>37%</td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>50%</td>
<td>36%</td>
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<td></td>
<td>2013</td>
<td>61%</td>
<td>29%</td>
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<tr>
<td></td>
<td>2011</td>
<td>56%</td>
<td>28%</td>
</tr>
<tr>
<td>Try to save as much money as you can</td>
<td>2017</td>
<td>47%</td>
<td>27%</td>
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<td>25%</td>
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<td></td>
<td>2013</td>
<td>50%</td>
<td>26%</td>
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<tr>
<td></td>
<td>2011</td>
<td>62%</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Source: Society of Actuaries 2017 Risks and Process of Retirement Survey (Figure 174).

*Note: The 2013, 2015 and 2017 surveys were conducted online, and the 2011 survey was a telephone survey.*
that want to encourage employees to think about the plan as a producer of income. The research reinforces how powerful this can be, since many employees clearly are not thinking about the plan in that context.

Employers are the main or maybe only source of information about retirement planning for many people. Employers can help by motivating older workers to spend the time and effort it takes to do a good job of planning their retirement and can offer resources or information about outside resources. Employers should decide what types of planning tools and retirement planning workshops to provide. One idea is to enlist retirees, who have insights about what worked and about regrets, to help with workshops and share their experiences. Employers also can open up workshops to spouses and encourage including family members in the retirement planning discussion.

Employers also must decide how active a role they wish to play with regard to the postretirement period. The workforce is generally split between people with a short-term focus and those with a long-term focus and planning horizon but, in many situations, more people have a short-term focus. The workforce is also split by asset level, family situation and other ways. A big question for employers is to what extent they wish to support customized solutions. The majority of employees in the typical workforce have no source of professional planning advice beyond the information offered by their employers. Employers need to decide whether their offerings will include customized advice.

The average middle-income American most likely does not have very large financial assets or retirement savings and wants to hold onto the assets at hand. That person probably does not have very much formal risk protection beyond health insurance, and his or her assets are a combined emergency fund and a source of funding for some extra activities. Income can be modestly increased by delaying retirement and Social Security claiming, which can help improve the retiree’s standard of living. Employers can offer resources to help individuals understand the implications of retirement age and of different Social Security claiming strategies. The resources might be employer-sponsored or simply made available through the employer. Delayed claiming can be supported by the offer of a period certain payout option to enable retirees to finance retirement before starting their Social Security benefits. In addition, employers can offer options to help enable longer work and/or gradual exit from the labor force. Employers can facilitate working longer by offering part-time work or seasonal work for older workers as part of their overall retirement program. They can ac-

### Table III

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<thead>
<tr>
<th>Risk Management Strategies That Increase Regular Income</th>
<th>Already Done: Preretirees</th>
<th>Plan to Do in the Future: Preretirees</th>
<th>Already Done: Retirees</th>
<th>Plan to Do in Future: Retirees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy a product or choose an employer plan option that will provide you with guaranteed income for life</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>19%</td>
<td>26%</td>
<td>21%</td>
<td>7%</td>
</tr>
<tr>
<td>2015</td>
<td>13%</td>
<td>20%</td>
<td>18%</td>
<td>4%</td>
</tr>
<tr>
<td>2013</td>
<td>15%</td>
<td>22%</td>
<td>22%</td>
<td>6%</td>
</tr>
<tr>
<td>Postpone taking Social Security</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>13%</td>
<td>39%</td>
<td>14%</td>
<td>8%</td>
</tr>
<tr>
<td>2015</td>
<td>7%</td>
<td>42%</td>
<td>13%</td>
<td>7%</td>
</tr>
<tr>
<td>2013</td>
<td>6%</td>
<td>44%</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Work longer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>19%</td>
<td>40%</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>2015 *</td>
<td>11%</td>
<td>36%</td>
<td>9%</td>
<td>3%</td>
</tr>
</tbody>
</table>

*2015 wording: “Postpone retirement”

decumulation

TABLE IV

Actions Taken for Financial Protection by Income (Strategies Selected by Income Range and Retirement Status)

Have you already done the following, do you plan to do it in the future or do you have no plans to do it to protect yourself financially (after you retire/as you get older)?

<table>
<thead>
<tr>
<th>Already done</th>
<th>Preretirees</th>
<th>Retirees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;$50,000</td>
<td>$50,000</td>
</tr>
<tr>
<td></td>
<td>(n=241)</td>
<td>(n=395)</td>
</tr>
<tr>
<td></td>
<td>(A)</td>
<td>(B)</td>
</tr>
<tr>
<td>Eliminate all of your consumer debt by paying off all credit cards and loans</td>
<td>23%</td>
<td>34%A</td>
</tr>
<tr>
<td>Try to save as much money as you can</td>
<td>32%</td>
<td>39%</td>
</tr>
<tr>
<td>Cut back on spending</td>
<td>37%B&lt;sup&gt;C&lt;/sup&gt;</td>
<td>26%</td>
</tr>
<tr>
<td>Completely pay off your mortgage</td>
<td>19%</td>
<td>26%</td>
</tr>
<tr>
<td>Move your assets to less risky investments as you get older</td>
<td>12%</td>
<td>20%A</td>
</tr>
<tr>
<td>Invest a portion of your money in stocks or stock mutual funds</td>
<td>20%</td>
<td>41%A</td>
</tr>
<tr>
<td>Consult a financial professional for advice or guidance</td>
<td>10%</td>
<td>24%A</td>
</tr>
<tr>
<td>Postpone taking Social Security</td>
<td>6%</td>
<td>10%</td>
</tr>
<tr>
<td>Buy a product or choose an employer plan option that will provide you with guaranteed income for life</td>
<td>7%</td>
<td>16%A&lt;sup&gt;A&lt;/sup&gt;</td>
</tr>
<tr>
<td>Work longer</td>
<td>19%&lt;sup&gt;B&lt;/sup&gt;</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: Society of Actuaries 2017 Risks and Process of Retirement Survey (Figure 10).

Note: Preretirees are aged 45 or older, and retirees are up to the age of 80. The superscripts indicate that there is a significant difference from the indicated columns.

commodate older workers who want to keep working but not at the same pace as full-time.

Retirees who wish to hold onto their assets face the question of whether to leave the money in their employer’s plan or roll it over into an individual retirement account (IRA). The employer plan, particularly for larger employers, is likely to have more favorable investment options than those available to IRAs in the retail market. The difference in expenses between the plan options and retail options can be particularly important for fixed income investments in a low-interest-rate environment. Employers can offer employees the option to leave money in the plan after retirement as well as information to help the employee understand and compare investment options and expense charges.

Many retirees are focused on the short term and not the long term. Many people do not understand longevity
well and tend to underestimate longevity or ignore thinking about the longer term. Employers can provide information about expected longevity. The Actuaries Longevity Illustrator is an example of a tool that can be used to estimate longevity.7 This tool includes information about the variability of life spans and considerations for couples to encourage them to think about the period that either of them will live.

The average middle-income person in the U.S. most likely underestimates the cost and likelihood of a significant need for long-term care and probably does not have long-term care insurance. It would be most helpful if more people had long-term care insurance or another organized strategy for funding long-term care. Employers can offer information and/or a program for purchase of long-term care insurance. Two information resources are the SOA decision brief Taking the Long-Term Care Journey 8 and information on buying long-term care insurance from the National Association of Insurance Commissioners.9

People with more financial assets have more to gain and can use lifetime income vehicles to help improve their retirement security, but unless they think about and plan for the long term they are unlikely to use them. The survey results confirmed that higher income retirees and near retirees are more likely to say they use income options. Employers will need to decide what options to include in their plans, what the default should be, what evaluation tools to offer and

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Biennial Risk Survey Series

- 2017 Risks and Process of Retirement Survey, Society of Actuaries (SOA), 2018
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Focus Groups and In-Depth Interviews and Reports

- Post-Retirement Experiences of Individuals 85+ Years Old, SOA, 2017
- Post-Retirement Experiences of Individuals Retired for 15 Years or More, SOA, 2016

Building Retirement Income Solutions (Joint Projects With the Stanford Center on Longevity)

- How to “Pensionize” Any IRA or 401(k) Plan by Steve Vernon, FSA. Stanford Center on Longevity, November 2017

Evaluating Retirement Income Solutions (Joint Projects With the Stanford Center on Longevity)


Consumer Information Publications

- Managing Retirement Decisions, Society of Actuaries, various dates
- “Designing a Monthly Paycheck for Retirement”
- “Taking the Long-Term Care Journey”

Note: All of the SOA reports can be downloaded from the SOA Aging and Retirement Research webpage at www.soa.org/research/topics/aging-ret-topic-landing/.
whether to offer access to favorable purchasing of lifetime income. Employers also need to decide whether to provide general information about the types of options that are feasible. The SOA decision brief Designing a Monthly Paycheck for Retirement offers a good start to understanding the general types of options. In addition, the employer may be able to assist the employee who wants an annuity income to purchase it on a more favorable basis than is obtainable in the retail market. This can be a valuable benefit for the employee at very little cost for the employer.

Research co-sponsored by SOA and the Stanford Center on Longevity offers help to employers that wish to make their DC plans true retirement plans and help their employees manage postretirement. Steve Vernon suggests that employers looking for a relatively easy and straightforward solution choose a default option combining delayed Social Security claiming, payment of the RMD after age 70½ and a default investment option tailored to work well with this structure. The structure of this program can include a period certain payout option to enable retirees to delay starting their Social Security benefit. It is also recommended to include an in-plan or rollover payout option to move plan funds to an annuity bidding service that offers favorable pricing to buy single premium immediate annuities or deferred income annuities for people who want guaranteed income.

Some employers will want to offer a menu of options to their retirees. Additional research sponsored by SOA and the Stanford Center on Longevity provides background and a guide for putting income options into DC plans and methods of evaluating a variety of different income options that might be included.

After putting this all together, some employers may decide to go with the flow after understanding how the typical employee thinks about planning. That would include giving retirees an attractive way to leave assets in the plan, tools to help them understand the implications of that, some planning tools, a variety of payout options within the plan, an attractive method to purchase annuity income and support to help with long-term care planning.

**Conclusion**

As more employers provide retirement savings in only DC plans, employers are faced with the decision of how to help retirees use their retirement assets. The ultimate success of the plan depends on successful use of the assets for the purpose intended. It is important to recognize the reality of how employees and retirees think and to design programs that they will connect to. Research on retiree planning and perceptions indicates that retirees are often focused on the short term and not on a systematic lifetime financial plan. The pragmatic approach that many people take works satisfactorily unless they experience a major long-term care event or other substantial shocks to disrupt it. To help the entire workforce, it is better if employers also offer a good menu of retirement income options. Regardless of whether people are longer term planners, employers can help retirees improve their results in retirement by following some of the steps described in this article.

**Endnotes**

1. All of these Society of Actuaries (SOA) reports are available to the public and can be found at www.soa.org/research/topics/research-post-retirement-needs-and-risks/#decisions.
2. Data is from SOA Segments the Middle Market: Retirement Risks and Solutions—Phase 1 Report Update to 2010 Data (2013). These studies analyzed the Survey of Consumer Finances and showed that for middle-income retirees (25% to 75% of all households), nonfinancial

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**AUTHOR**

Anna M. Rappaport, FSA, MAAA, is president of Anna Rappaport Consulting. She is an actuary, consultant, author and speaker and is a nationally and internationally recognized expert on the impact of change on retirement systems and workforce issues. Rappaport chairs the Society of Actuaries Committee on Post-Retirement Needs and Risks and serves on the Advisory Board of the Pension Research Council and the Board of the Women’s Institute for a Secure Retirement. She has received the Lifetime Achievement Award by the Plan Sponsor Council of America. For more information, see www.annarappaport.com.
assets were much larger than financial assets, and for mass affluent retirees (75% to 85% of households), nonfinancial assets were still more than half of total assets. Analyses were performed using the 2007 and 2010 surveys. It was decided that the conclusions would not change with the 2013 updated data, so the analysis was not repeated. This work provides a vital big picture of the resources of middle-income Americans.

3. Retirement decisions were a major theme of the SOA 2013 focus groups with recent retirees and also were a topic of focus for the 2013 risk survey.
4. The last few surveys showed a five- to seven-year spread between the age at which individuals retired versus what preretirees expected.
5. Risks do not go away with the shift to defined contribution (DC) plans, but risk protection may. Areas where risk protection is lost include protection against preretirement inflation risk and longevity risk and some protection against disability risk. The problems are magnified by low awareness of some of these issues. For more information, see SOA, Diverse Risks Essays (2016), Rappaport, Anna, “Thinking About the Future of Retirement.”
7. This tool is available to the public and can be found at http://www .longevityillustrator.org.
8. See www.soa.org/research-reports/2012/research-managing -retirement-decisions/.
13. Designing such a menu is beyond the scope of this article. Relevant information can be found in the SOA publication, The Next Evolution in Defined Contribution Retirement Plan Design, A Guide for DC Plan Sponsors in Implementing Retirement Income Programs, 2013, at www.soa.org/research-reports/2013/research-2013-next-evol-dc-design.