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RETIREMENT RISKS

Vital Issues for the Post-Retirement Period

By Anna M. Rappaport, FSA, MAAA

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Advisors help their clients plan for a successful retirement. Each person is different and everyone faces financial and other uncertainties in retirement. For instance, people often do not know when they will retire, whether they will be pushed into retirement, how long they will live, or what uncertain events they will encounter.

The Society of Actuaries (SOA) sponsors an extensive program of research on post-retirement risks. The SOA research includes:

- a guide identifying post-retirement risks and ideas about how they may be managed,[1]
- biennial surveys of pre-retiree and retiree knowledge about and degree of preparedness for the risks,
- decision briefs to help advisors and consumers focus on the questions to ask in managing each risk, and
- some additional research papers and tools.

The collection of SOA post-retirement risks research is important for advisors and individuals because it identifies gaps in knowledge about the challenges of retirement, it helps us to understand what people think and how they act, and it explores many issues not usually addressed in retirement research.

THE SITUATIONS OF RETIREES

Many retirees have financial and other resources they can count on. Nearly all Americans who had longer-term employment qualify for Social Security, which offers a steady inflation-adjusted lifetime income in old age. In addition, some retirees have employment-based defined contribution savings amounts or pensions that provide additional income. Many retirees, however, have no regular sources of income other than Social Security. Some individuals have substantial assets in addition to those in employer plans. And for many, their houses are their most valuable assets as they reach retirement.

Retirees face uncertainty regardless of whether or not they have assets. Those retirees with assets need to invest their assets, and they also will need to determine how and to what extent to spend them down. And retirees have a lot of choices about spending. Those without significant assets face some critical decisions: when to retire and claim Social Security, whether to continue to work in retirement, and how to adjust spending when their earnings decrease. Some big questions for advisors to ask themselves include:

- Which uncertainties and decisions are you positioned to help clients deal with?
- Some post-retirement risk solutions involve financial products. Will you help with securing such products?
- How far beyond investments and financial decisions do you wish to focus in your practice?
- Are you prepared to help clients who have limited financial resources?
- What is your business model and how will you be paid?

This article reviews some of the key retirement risks and strategies for managing them. Most advisors are familiar with investment and inflation risks and related strategies, so this article will focus less on these issues. Instead, this article will focus more on the risks of longevity, health care, long-term care, late-in-life employment, and some non-financial risks. It will also provide insights on some key findings from the SOA post-retirement risks research results and highlight areas where there may be opportunities for advisors to provide clients with help.

RISK TYPES FACED BY RETIREES

Retirees face a wide range of risks. In the new SOA guide on managing post-retirement risks, risks are classified into three groups: economic risks, personal planning considerations, and unexpected (or unpredictable) events. The economic risks include inflation, interest rate risk, financial market risk, and business continuity. Table 1 provides an overview of the economic risks and suggestions about how to manage them.

Personal planning considerations include longevity risk, which is the possibility of living longer than expected; and risks related to post-retirement employment, changes in housing needs, and changes in marital or partnership status. These risks remind couples that it is important for them to have a plan that works for them as a couple and also one that will work for each of them if they are no longer a couple. Table 2 provides an overview of these risks.

Unexpected (or unpredictable) events include public policy changes such as changes in taxes and government benefits, significant healthcare needs,

Table 1

ECONOMIC RISKS

Risk	What it Means	How to Manage
Inflation	Retirees, especially those living on a fixed income, need to be concerned about increasing costs in retirement.	Retirees need to plan for inflation and optimize income sources that include cost-of-living adjustments (e.g., Social Security).
Interest rates	Interest rates determine payouts on savings accounts, certificates of deposit, and bonds and also affect the price of annuities and bonds and the cost of mortgages and debt.	Select investments that meet needs for fixed returns and that have a time horizon that fits personal needs. Avoid debt with high interest rates.
Financial markets	Stock and bond prices vary depending on how well a specific company, the economy, and the industry are doing.	It is important to use a diversified investment strategy, taking advantage of stocks and bonds as part of the portfolio, but do not invest too much in any one stock or bond. Financial products provide for pooled investments that include a variety of mixes.
Business continuity	Risk of insolvency, bad business conditions, and/or bankruptcy can lead to loss of some pension and annuity benefits.	Consider benefit guarantees and be aware of what is secure and what is not. Remember that businesses such as insurance companies and retirement communities can go bankrupt. Arrangements with insurance companies, banks, and mutual funds may be subject to specific guarantees. Remember that investing in the stock of the company that an individual works for creates a double business risk.

Table 2

RISKS AND PERSONAL PLANNING CONSIDERATIONS

Risk	What it Means	How to Manage
Longevity	Longevity means living a long life and it increases the chance of running out of adequate resources. Retirement planning requires having assets and a flow of income to last through retirement. Many people do not plan for the long term and if they do, they may underestimate longevity.	Couples need to focus on longevity of the second to die. Social Security claiming decisions and retirement age decisions are a first step in focusing on longevity risk. Managing assets after retirement is also critical. Converting retirement savings into guaranteed monthly income by annuitizing can be a great way to address longevity. The complexity comes in the details, such as how much, when, at what cost, and what type of annuity best fits your needs. Systematic withdrawals, often adjusted to reflect remaining life expectancy, provide a varying stream of income. A variety of products address this risk.
Post-retirement employment	Increasingly, full- or part-time employment is desired as part of retirement, because of personal preferences and/or financial needs. This can be particularly important when people are pushed into retirement earlier than they wanted to be.	Being realistic and flexible is part of what can make this work. Job availability may be limited, and the individual should plan to keep or acquire the skills required for ongoing employment. Keeping contacts current is also helpful.
Changes in housing and support needs	Housing needs may change in the future when functional status changes and caregiving help is needed. Housing is also the largest item of retiree expense, and there are wide variations in cost by location, type of housing, and support services, if any.	Housing decisions are important to happiness and determine access to family support, social opportunities, health care, and help with activities of daily living. Support can be provided by family or by paid help in one's own home, and it can be integrated with housing. For instance, when major help is needed, the housing decisions can lead to added expenses and difficulty for the family, especially if they do not live nearby. Long-term care insurance can help to finance support for people needing major help.
Death of a spouse or partner	The death of a spouse or partner can cause drastic changes in retirement plans. Roles in handling finances also may change. Lifestyle needs (housing, companionship, and care) also will be altered.	SOA research indicates a wide range of situations exist for the survivor. Often the survivor experiences a greater decrease in income than expenses and reduced assets due to care of the deceased. Many survivors are worse off financially. Insurance and structuring of payment options for benefits are important elements in risk management. Long-term care insurance also can help protect the assets of the survivor when the individual who is deceased had a long period of illness. A support system is also important for the survivor.
Divorce or separation from a spouse or partner	Divorce or separation after retirement has financial and emotional consequences for retirees. Lifestyle needs (housing, companionship, and care) also will be altered.	Divorce after retirement splits financial resources, including retirement accumulations; this can be a dramatic shock. Many retirees have difficulty fully recovering from a divorce.

unforeseen needs of a family member, and bad advice, fraud, or theft. Table 3 provides an overview of these risks.

Advisors are in different situations with regard to these risks. Most of the economic risks are considered in the usual financial plan and advisors are familiar with them. However, some risks, such as public policy risk, are not subject to management but can be planned for by having some investments that are not subject to the same risks.

RESEARCH ABOUT RETIREMENT RISK INFORMS PLANNING

The SOA has conducted biennial risk surveys since 2001 and several sets of focus groups with retirees at different stages of retirement. The first set of focus groups was with recent retirees, and this was followed up with focus groups with people retired 15 years or more, as well as research with people age 85 and older. The risk surveys included pre-retirees and retirees and was targeted to be economically representative of the U.S. population. The research with the focus groups and those older than age 85 was designed to represent people who are asset-limited and does not include any higher-net-worth individuals.

Repeated findings indicate some consistency in risk concerns, risk-management strategies used most often, and knowledge gaps. A few of the findings that point to opportunities for advisors include the following:

There are many gaps in knowledge. The respondents were not generally knowledgeable about longer-term retirement planning and retirement risks, and when they were, they did not necessarily act. Educating clients about these risks and strategies to address them can be an important role for advisors.

The top three financial risk-management strategies show up repeatedly. These were to reduce spending, increase savings, and pay off debt. A key point for advisors is that risk-protection products, other than health insurance, are not used very often.

Individual behaviors often do not track with experts' recommendations. For example, when retirees were asked if they would prefer to spend down assets with a regular payout or to annuitize, they frequently answered that they want to hold on to assets. Experts, however, often look for plans or products that enable people to maintain a standard of living, and retirees often look for ways to cut spending to avoid spending down assets.

Three top post-retirement risk concerns persist. These are inflation, healthcare expenses, and paying for long-term care. These concerns have been found consistently over repeated iterations of the survey through 2019; however, the ranking among these concerns has changed over time. One puzzling question is: Why is there not more concern about long-term care? Almost everyone is insured for acute healthcare expenses once they reach Medicare eligibility, but only about 10 percent of the population has long-term care insurance.

Table 3

UNEXPECTED AND UNPREDICTABLE EVENTS

Risk	What it Means	How to Manage
Public policy changes	Changes in taxation, public benefits, and rules governing private benefits can improve or worsen the situation of retirees.	Maintain a cushion and lock in some steady income. Public policy risk is not personally manageable or predictable. However, investing out of the home country is a way to protect against some forms of public policy risk. For example, many Latin Americans buy housing in Florida and Chinese have bought housing in Canada as a way to protect against public policy risk.
Significant healthcare needs	Some people need large amounts of health care in retirement and may not have planned adequately for it. Some people need ongoing support with a variety of tasks.	Take care of yourself to improve health and reduce the risk. Choose health insurance approaches wisely. Note that Medicare-eligible individuals have annual decisions to make and that there are major differences between options, and these differences can change year by year. Options are based on the local market. Options and decisions are different for people who have access to employer-sponsored coverage.
Unforeseen needs of family members	Family members, often adult children, need help and retirees may step up to help them.	This is often an overlooked area of planning. If individuals plan to help family members, then they can include such expenses in retirement planning and determine if they can afford to help them. A short-term planning horizon may leave retirees vulnerable to making mistakes and using too much of their assets to help family members.
Bad advice, fraud, or theft	Fraudsters are everywhere, and seniors can be especially vulnerable. The perpetrators of fraud can be strangers or people we know. Individuals who have experienced cognitive decline are more vulnerable.	Care is needed when households ask for advice and hire help who will be in the home. In some cases, family members, trusted advisors, or even court-appointed guardians can be sources of exploitation. Some help is bonded and some is not. Sources of help should be vetted. Use bonded caregivers. If a family member takes over day-to-day money management, encourage the use of some checks and balances so that information is shared. Care should be taken to designate a strategy for health care and financial decisions after one is no longer able to perform those functions.

Table 4

CHECKLIST: HELP CLIENTS FINANCIALLY PLAN FOR POST-RETIREMENT

Planning period	Establish a planning period and focus on the household; the plan needs to work for the household and each individual separately.
Decision checklist	Develop a timeline and checklist for necessary decisions.
Clients with significant assets or pensions	Explore trade-offs among choices available regarding an income portfolio or approach to asset management during retirement.
Build the income portfolio	Consider various retirement resources that will pay a specified amount for life including Social Security, pensions, and payout annuities. Payment options may include survivor benefits, indexing for inflation, or income after a certain age.[a]
Clients without significant assets	Identify key strategies and decisions, e.g., timing of retirement, working longer, Social Security claiming, reducing expenses.
Optimize Social Security claiming	Households must consider claim timing among all members, especially for married couples; optimized claiming can improve present value of benefits by more than $100,000.[b]
Build a bridge fund	Asset-constrained clients with adequate working years remaining: save for a bridge fund to provide income between retirement and delayed Social Security claiming. Clients with sufficient assets: set aside a dedicated bridge fund.
Clients with employee benefits	Understanding the benefits and the elections they require. Include benefits from prior jobs. Use caution evaluating lump-sum payouts of pension benefits; a monthly payout is better choice for providing an income stream.[c]
Plan for possible long-term care needs	A significant long-term care event can disrupt household retirement finances, potentially leaving a surviving spouse without assets. Plan by considering sources of care and financing. Long-term care insurance can help; some products combine life insurance or annuities with long-term care benefits. Self-insurance is an option for those with substantial assets. Advanced life deferred annuities may help. Medicaid pays for nursing home care and some home care for some without assets but faces financial pressure and may change in the future. Family or other support is critical; housing can be integrated with care.[d]
Plan for health maintenance, healthcare financing	Anticipate health challenges and healthcare costs. Medicare requires annual decisions, options vary by local market, and recipients must pay for premiums and uncovered items including out-of-network care, deductibles, and co-payments. Medicare doesn't cover dental, vision, or health care abroad; limited separate coverage may be available; many seniors are surprised by large dental bills.[e]
Consider working longer	Some want to retire gradually; others need to work longer to fund retirement. Regardless, opportunities for working longer may be harder to find.[f]
Decide on housing	Housing is generally a retiree's largest expense, and housing choices involve financial and non-financial decisions. Financial issues include affordability, whether to pay off a mortgage or take a reverse mortgage, and evaluating senior housing that may include up-front and regular payments. Non-financial issues include location, suitability, access to family, transportation, health care, climate, activities, and care needs.[g]
Plan for financial help for family (if any)	Many retirees sacrifice their retirement security by providing repeated help to adult children or other family members. Examine whether financially helping others is actually affordable.
Plan for needing help later in life	Chances are some physical and/or cognitive decline will require you to have accommodation and assistance as you age, so plan for this eventuality while you are still in good shape.[h]

a *See "Designing a Monthly Paycheck for Retirement," SOA Decision Brief, https://www.soa.org/globalassets/assets/files/research/research-pen-monthly-paycheck.pdf. See also the analysis of a variety of income portfolios in the series of reports by Steve Vernon, Joe Tomlinson, and Wade Pfau, jointly sponsored by the SOA and Stanford Center on Longevity, https://www.soa.org/research/topics/research-post-retirement-needs-and-risks/#income.*

b *See "Deciding When to Claim Social Security," SOA Decision Brief, https://www.soa.org/globalassets/assets/files/research/research-pen-deciding-ss.pdf.*

c *See "Lump-Sum or Monthly Pension: Which to Take?" SOA Decision Brief, https://www.soa.org/globalassets/assets/files/research/projects/research-2016-lump-sum-mrd.pdf.*

d *See "Financing Long-Term Care Needs," SOA Decision Brief, https://www.soa.org/globalassets/assets/files/research/research-pen-long-term-care.pdf.*

e *See "Securing Medicare and Other Health Insurance for the Retirement Journey, Managing Retirement Decisions Series, Society of Actuaries (2020), https://www.soa.org/globalassets/assets/files/research/research-pen-securing-health-insurance.pdf.*

f *See "Big Question: When Should I Retire?" SOA Decision Brief, https://www.soa.org/globalassets/assets/files/research/research-pen-big-question.pdf.*

g *See "Where to Live in Retirement," SOA Decision Brief, https://www.soa.org/globalassets/assets/files/research/research-pen-housing.pdf.*

h *See "A Conversation on Dementia and Cognitive Decline," SOA Research Brief, https://www.soa.org/resources/research-reports/2018/cognitive-conversation/.*

People often retire sooner than they expect to. In 2019, the median actual retirement age was 60 compared to an expected retirement age of 65. Similar results have been found survey by survey. The SOA 2013 focus groups indicated that a substantial majority of people were pushed into retirement earlier than planned due to a job situation or health concerns for self or a family member; the 2019 survey tends to confirm that. Advisors can help clients determine when they want to retire and, in addition, help them implement a "Plan B," for use if they are pushed into retirement earlier than expected.

Asset retention is the favored financial strategy for many retirees. Many older people have indicated repeatedly that they prefer to hold on to assets rather than spending them down. Of course, they must take the required minimum distributions from qualified plans or individual retirement accounts or face penalties. The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 now allows people to hold onto these assets until age 72, however, so there is an opportunity to revisit these strategies with clients.

Some risks appear to be overlooked. Retirees and pre-retirees seem to have relatively little concern about some important risks such as fraud, exploitation, and theft of assets. Advisors can alert and remind clients about these risks.

RISK PERCEPTIONS ACROSS GENERATIONS

In 2018, the SOA conducted a survey of financial attitudes and concerns across five generations. It showed a strong interest in retirement savings across all generations; about six in 10 respondents said they believed they were on track saving for retirement (which, however, seems overly optimistic). The survey revealed strong family connections and key financial priorities (e.g., bill-paying) across generations. It also revealed general agreement across generations that millennials face more financial difficulty and are more likely to be financially fragile than older generations. The percentage of respondents having problems paycheck to paycheck varied by generation, and there were large gaps in emergency funds across all generations. The younger generations were most likely to have debt: Gen Xers were most likely to have mortgage debt and millennials were most likely to have student loan debt.

CHECKLISTS FOR ADVISORS

There are a large number of post-retirement risks, a number of common knowledge gaps, a variety of products that deal with the risks, and little consensus about the best answers. The following checklist together with table 4, however, offer advisors a place to start helping clients deal with these risks. (It should also be noted that the Investments & Wealth Institute's Retirement Management Analyst® educational program and certification offers education specifically focused on the post-retirement period.)

ACCESSING SOA RESEARCH, CONSUMER INFORMATION, AND TOOLS

All materials are available on the Society of Actuaries website, https://www.soa.org/research/topics/aging-ret-topic-landing/.

Summaries and highlights of the post-retirement risk research by topic are available at https://www.soa.org/resources/research-reports/2017/post-retirement-needs-decisions/.

The risk surveys are available at https://www.soa.org/research/topics/research-post-retirement-needs-and-risks/#risksurvey.

Managing Post-Retirement Risk: Strategies for a Secure Retirement (Risk Chart) available at https://www.soa.org/resources/research-reports/2020/post-retirement-strategies-secure-chart/.

SOA Decision Briefs are available at https://www.soa.org/resources/research-reports/2012/research-managing-retirement-decisions/.*

The Actuaries Longevity Estimator is available at https://www.longevityillustrator.org.

** The SOA Decision Briefs describe the issues involved in decisions and offer some pros and cons. They generally do not recommend a specific course of action and do not favor particular products. Some advisors have given them to clients prior to discussing an issue in order to help educate the client.*

BUILD AN ADVISOR INFORMATION BASE

- Understand the risks and decide where you can help.
- Understand what the public says about the risks, where knowledge gaps are likely, and how behavioral considerations fit in.
- Understand that there is change throughout the retirement period, and that many people will experience go-go, slow-go, and no-go periods in retirement. Too often planning starts and stops at the go-go phase.
- Understand the product approaches available, the factors that affect pricing, and how to compare similar products.
- Understand licensing and legal requirements to help with various products or approaches and secure needed licenses.

CONCLUSION

Retirement is a time of change and uncertainty. As advisors know well, life and financial patterns in retirement are different from the pre-retirement period and require a variety of on-going decisions and management strategies. Many life and non-financial post-retirement risks are intertwined with financial decisions and management strategies. For advisors, this creates tremendous opportunities. If you decide to help your clients address some of the other types of risks, you need to explore how addressing each of the types of risks impacts your business and then make business decisions to expand your services.

Anna Rappaport, FSA, MAAA, is a phased retiree and chairs the Society of Actuaries Committee on Post-Retirement Needs and Risks. She is an actuary and futurist, and an internationally recognized expert on the impact of change on retirement systems, women's retirement issues, and workforce issues. She earned an MBA from the University of Chicago. Contact her at anna.rappaport@gmail.com.

ENDNOTE

1. See "Managing Post-Retirement Risks: Strategies for a Secure Retirement (Risk Chart)" https://www.soa.org/resources/research-reports/2020/post-retirement-strategies-secure-chart/.

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