

ANNA RAPPAPORT CONSULTING
STRATEGIES FOR A SECURE RETIREMENTSM



Challenges to Successful Later Retirement

EBRI Policy Forum
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Agenda

- Disability benefit issues
- Findings from research
 - Planning horizon
 - Retirement ages
 - Impact of retiring later
- Opportunities and options
- Observations



The Importance of Disability

Status of Americans Age 50-61 Not in Labor Force

	Retired	Disabled	Other Reasons
Men (14% of Population)			
% of Not in Labor Force	32%	64%	4%
% Poor	15%	24%	NA
Women (24%)			
% of Not in Labor Force	26%	40%	34%
% Poor	14%	34%	10%

Source: CBO, Disability and Retirement: The Early Exit of the Baby Boomers from the Labor Force, November 2004



The Importance of Disability

Economic Status of Americans Age 50-61

	Retired	Disabled	In Labor Force
Men			
Median Annual Family Income	\$30,000	\$20,000	\$62,000
Median Net Worth	\$231,000	\$19,000	\$148,000
Women			
Median Annual Family Income	\$34,000	\$19,000	\$54,000
Median Net Worth	\$218,000	\$14,000	\$132,000

Source: CBO, Disability and Retirement: The Early Exit of the Baby Boomers from the Labor Force, November 2004 (CBO analysis based on 2001 SIPP)



% Disabled Increases with Age

Social Security Disability Incidence Rates per 1000 by Age

1998 Age	25-29	35-39	45-49	55-59	60-64
Rate	1.3	2.8	5.3	14.0	15.5

Source: Social Security Office of the Actuary, Actuarial Study Number 114 Table 4

- Three in 10 workers entering the workforce today will be disabled before they retire
- One in seven workers can expect to be disabled for five years or more before retirement
- 90% of Americans underestimate their chances of being disabled
- 85% express little concern that they will suffer a disability lasting three months or more

Source: Worker Disability: A Growing Risk to Retirement Security, Council for Disability Awareness, June 2008



Disability issues: Gaps in Disability Coverage Today

- Disability in 40s and 50s means
 - Loss of income
 - Loss of new retirement savings
 - Possibility of added expenses—medical and care-giving
 - Stress on family members
- Many employees do not choose LTD
- DC plans and disability
 - No continued accrual of benefits
 - Pay out lump sum on disability
 - Funds may be spent too early
 - Can offer added disability benefit to make up for accrual—rarely done



Findings from Research: Dealing with realities of Individual Action

- Retirees tend to plan on a short-term and not a long-term basis.
- It is common for retirees to take 6 percent of assets and compare to expenses (less income from other sources) and use this as a measure of affordability of retirement.
- Most of the retirees did not have an organized comprehensive risk management program. Rather they took each day at a time and dealt with things as they occurred.
- Many of the retirees did not do formal retirement planning.
- There was a lot of awareness of long-term care insurance, but few bought it, and a number thought it was too expensive.
- There was very limited awareness of annuities.
- A lot of what people think they know is often misguided or false.

Source: *Spending and Investing in Retirement: Is There a Strategy?*, Society of Actuaries and LIMRA (2006)



More than half have a planning horizon of 10 years or less

When you make important financial decisions, about how many years do you look into the future?

Years	Retirees (n=401) (%)	Pre-retirees (n=40.) (%)
Less than 1 year	10	1
1 to 4 years	20	12
5 to 9 years	19	24
10 to 19 years	16	37
20 years or more	7	13
Don't know	27	13

Source: Society of Actuaries, 2009 Risks and Process of Retirement Survey



Dealing with realities of Individual Action

Planning for retirement: Voices of retirees

“I traveled about 70 percent of my time when I was working. I got up one morning and said, ‘I’ve had it.’ and walked in and quit.”

“I never sat down and thought, I am 59, and in 30 years I’ll be 89. Have I allocated enough for 30 years? I never did that. Theoretically, I should have. But it doesn’t seem to make any difference.”

Source: *Spending and Investing in Retirement: Is There a Strategy?*, Society of Actuaries and LIMRA (2006)



Retirement Ages

- Current signals re United States retirement ages
 - Social Security full benefit age—moving to 67
 - Social Security early retirement age—62
 - Normal retirement age for most DB plans—65
 - Public sector normal retirement—earlier
- Big question—how should retirement ages be updated to reflect changes in longevity?
- Is a “self-adjusting” retirement age feasible?
- High and low effective retirement ages (2002-2007)
 - Mexico—74
 - France—59

Note: Data downloaded from OECD website



Pre-retirees expect to retire later than retirees

At what age (retirees: did you/pre-retirees: do you expect to) retire from your primary occupation?

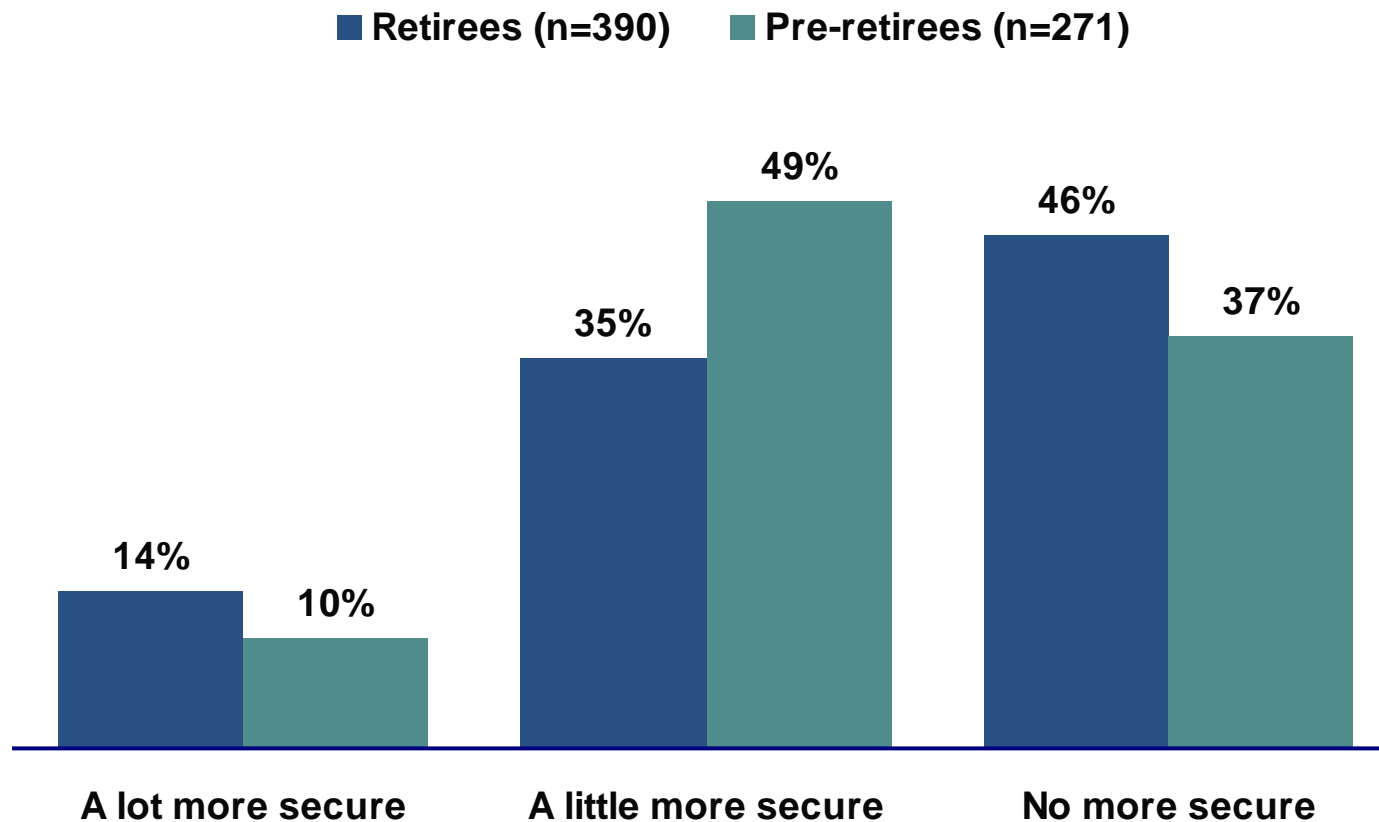
Age category	Retirees (n=393) (%)	Pre-retirees (n=273) (%)
Under 55	28	1
55 to 61	33	24
62 to 64	20	16
65 to 69	14	38
70 or older	3	13
Don't know	3	8

Source: Society of Actuaries, 2009 Risks and Process of Retirement Survey

People believe delaying retirement will help increase security

[Suppose you retired three years later.] Do you think this would make your retirement financially...?

(Among those retired/expecting to retire)

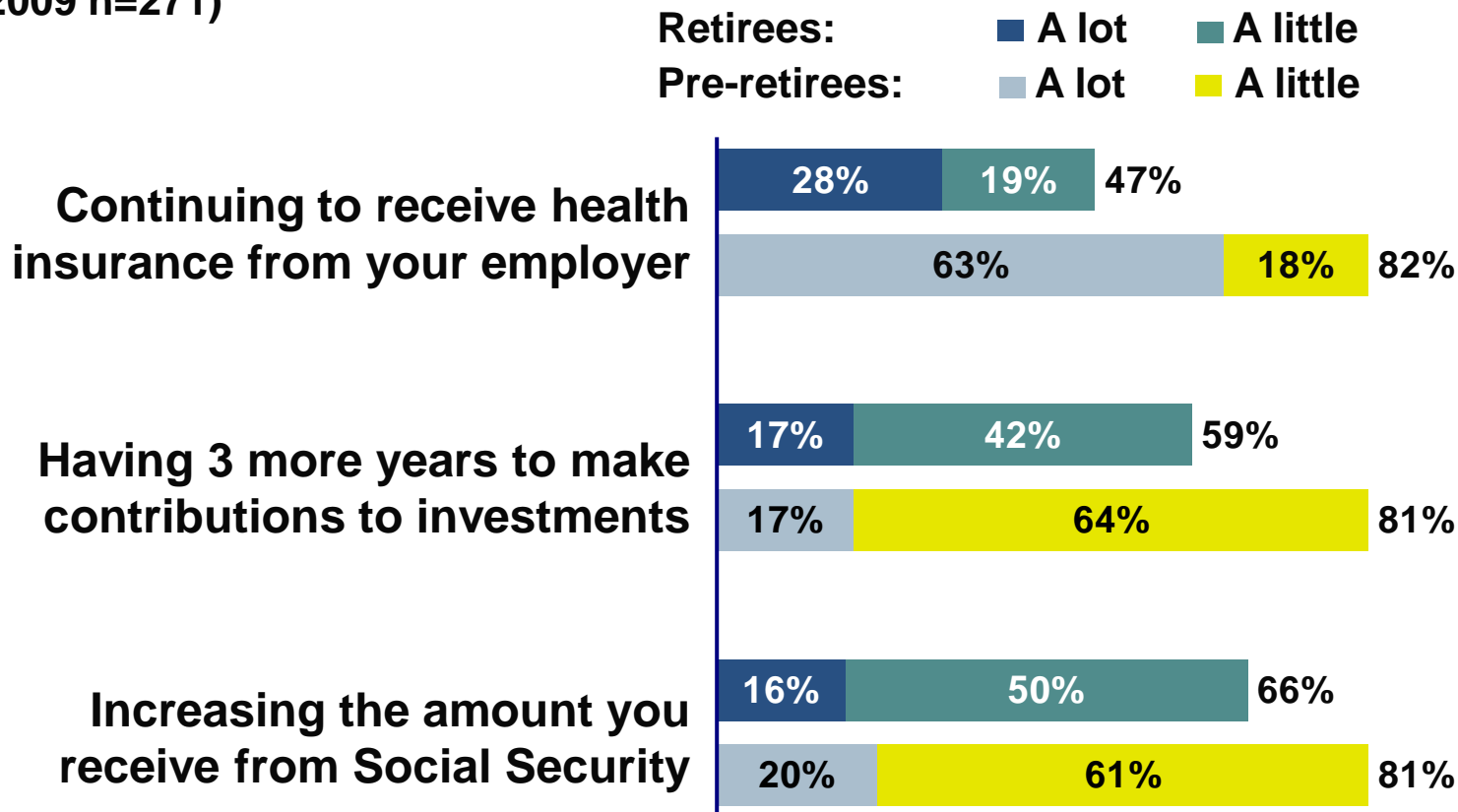


Source: Society of Actuaries, 2009 Risks and Process of Retirement Survey

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Much of the added security comes from continuing employer health

[If you retired three years later,] how much, if at all, would each of the following (have increased/increase) your financial security in retirement? (Among those retired/expecting to retire: Retirees, 2009 n=390; Pre-retirees, 2009 n=271)

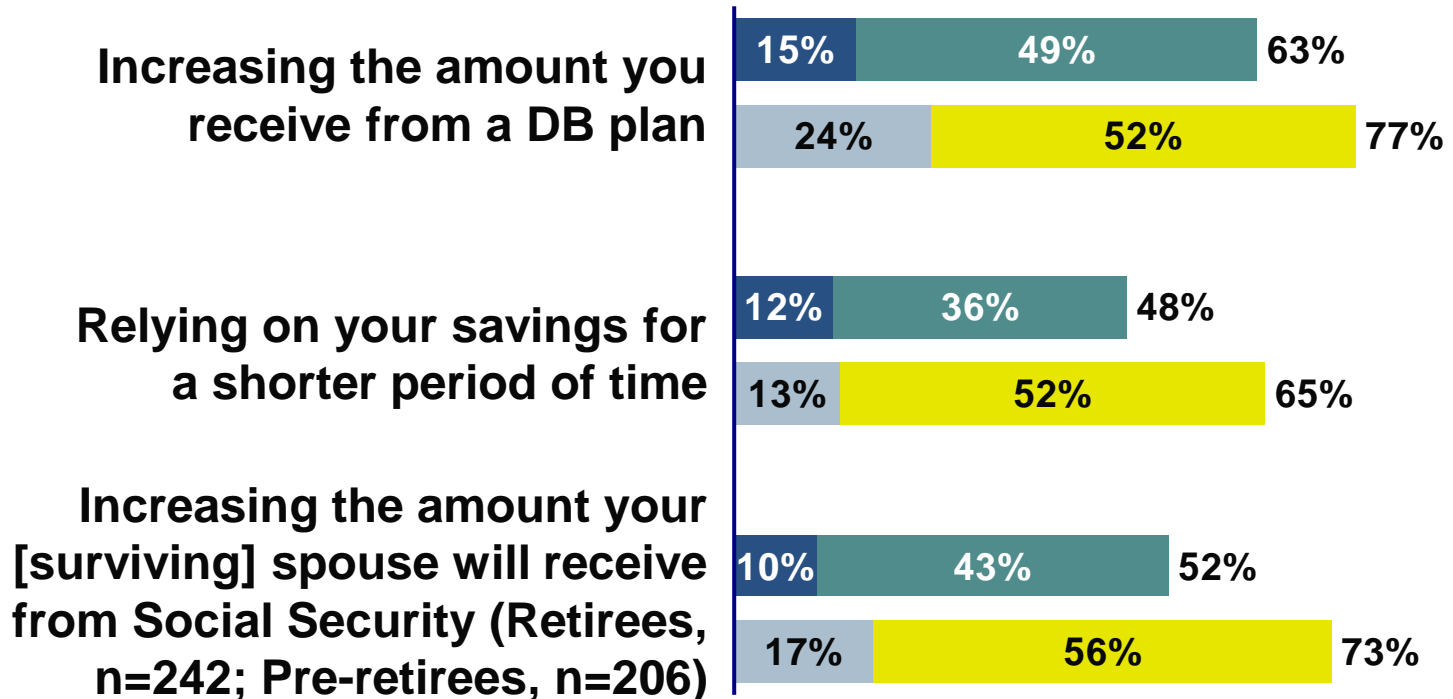


Source: Society of Actuaries, 2009 Risks and Process of Retirement Survey

Less comes from relying on savings for a shorter time

[If you retired three years later,] how much, if at all, would each of the following (have increased/increase) your financial security in retirement? (Among those retired/expecting to retire: Retirees, 2009 n=390; Pre-retirees, 2009 n=271)

Retirees: ■ A lot ■ A little
Pre-retirees: ■ A lot ■ A little



Source: Society of Actuaries, 2009 Risks and Process of Retirement Survey
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Creating Opportunities: How We Retire

- More than 7 in 10 people say they want to work in retirement (repeated finding in multiple studies)
- Many work after “retirement”—often part-time or part-year
 - CRS Sept. 2008 study indicates that 37% of men and 35% of women aged 55 to 64 who were receiving pensions in 2007 were employed in March 2008
 - Of those aged 65 and over, 12% of men and 9% of women were employed



Creating Opportunities: Individual Perspective

- Keep our skills up-to-date
- Keep networks up-to-date—in and out of the country
- Stay comfortable with new technologies
- Be flexible—don't have unreasonable expectations



Observations

- Disability—huge issues without enough attention paid to it
- Planning horizons are too short
- Planning is incomplete and often missing
- Retirement ages
 - Expectations and reality are out of step
 - Important to make later retirement a reality
- Important to create more opportunities for experienced workers