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STRATEGIES FOR A SECURE RETIREMENTSM



Signals: Retirement Options, Phased Retirement and Retirement Decisions

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Society of Actuaries Retirement 20/20 2008



Today's presentation goals

- Understand signals and link to retirement ages
- Think about response
- Looks at research:
 - What people say: 2007 SOA Risks and Process of Retirement Survey



Agenda

- Context
- Types of signals
- Decisions about retirement
- Changing the signals



Context: Behavioral finance

- Inertia
- Nudges drive behavior
- Framing matters
- Two options – 50%-50%
- Many choices = help!!!
- Choice architecture



Context: The signals around us

- Word “retirement” = Nudge; i.e. signal
- Common to make 20-30 year decisions based on short term (or no analysis)
- Planning for later years: complex and difficult
- Signals > focused on leisure, not need for income and security
- Signals > focused on dreams, not risk management
- “Early retirement” = permission to leave work disliked
- Pensions + Social Security > expectation of fixed (or limited) retirement ages – no increase for longevity
- Social Security retirement decisions – could be influenced by new framing



Signals about retirement

- Words
- Provisions of Social Security and pension plans
- Advertisements and literature
- Role models, peers and family
- What is not said



Signals from the pension world

- Words
 - Full or normal retirement age (NRA)
 - Phased retirement
 - Early retirement (ERA)
- Social Security
 - Can retire (claim benefits) from 62 to 70
 - Full benefit age gradually increasing to 67, then fixed
- Pensions
 - Most DB private sector plans – NRA = 65
 - ERA – commonly age 55 with large benefit reduction
 - Public employee plans – earlier ages
- No links to ongoing longevity increases



Signals and New Work Options: Phased Retirement

- Allows mature workers to work on reduced or modified basis before retirement (phasing pre-retirement)
- Allows rehire of retirees (phasing post-retirement)
- Modified work may mean change of schedule, place or duties
- May enable workers eligible for retirement to collect some portion of their pension benefits as they continue work
- Can be formal or informal arrangement
- Includes working for former employer or a different employer



Signals from the world around us

- Advertisements and literature
 - Advertisements – healthy elderly playing golf
 - Endless vacation
 - Literature
 - New retirement – planning for work in retirement
 - Much activity focus/many books
 - Little focus on life income, risk management, downsides
- Role models, peers and family
 - First generation with such long lives
 - Important for all stakeholders



Role models: Bon Secours Richmond Health System

Employer level: Three methods of phasing into retirement

- Retire at 65, but continue working part-time (to 24 hrs/wk) while collecting full pension
- Work past 70.5 and get pension check regardless of schedule
- Retire and return after 3 months absence — continue to collect pension

Employee level: Nettie

- Started as nurse in 1957, later moved to flex schedule
- 1975 – Transferred to employee health
- 2000 – Went to 2 days/week – doing employee TB tests



Signals: What is not said

- Focus on long life
- Focus on variable life
- What happens to many widows
- Risk side of the story



How people retire

- People expect to retire later, but so far – few do
- Many retire before they planned to
- Phased retirement already exists informally – 30% of retirees worked for pay in last year
- And phased retirement will likely increase in the future
- 2005 survey looked at working retirees and their work
 - 1 in 3 continued to work for same company as before retirement
 - Majority used skills from primary occupation
- Few retire at same time as their spouses



When we retire: Pre-retirees expect to retire later than retirees, 1 in 3 say it doesn't apply

How old were you when you retired or began to retire from your primary occupation?/At what age do you expect to retire from your primary occupation?

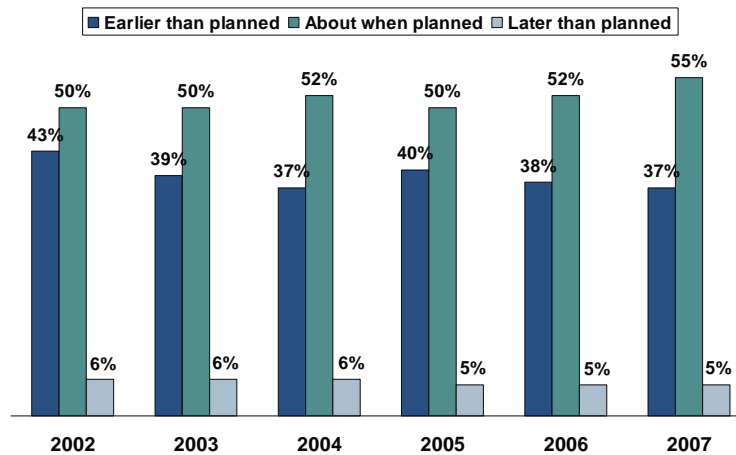
Age category	Retirees (%) (n=400)	Pre-retirees (%) (n=401)
Under age 55	31	1
55 to 61	30	16
62 to 64	16	12
65 to 69	13	27
70 or older	4	6
Will not retire	1	1
Doesn't apply	3	32
Don't know	2	6

Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey

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Many may be ignoring the possibility of involuntary early retirement



Source: EBRI/Greenwald, 2002-2007 Retirement Confidence Surveys

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Decisions about retirement

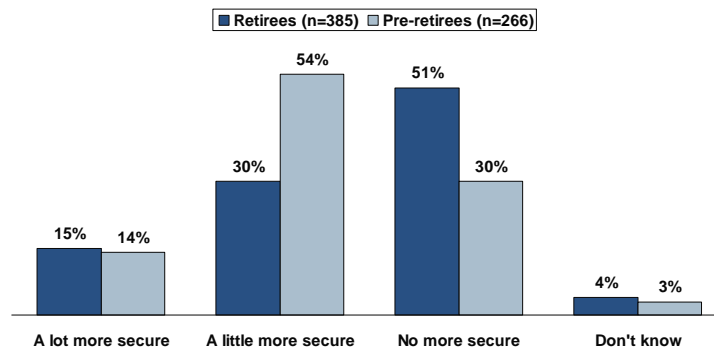
Some of the most important decisions of our lives

- People with DC only retire later than those with DB
- Majority – Social Security at earliest age
- Common advice – claim early
- Recent aerospace retirees – 54% considering timing for 2 years or less
 - Most did not have good discussion with employers
- Not uncommon to retire without longer term financial plan
- Four out of ten retire early than planned
- Big decisions
 - When
 - How to organize money
 - How to organize our lives



What we think: Pre-retirees think delaying retirement would increase their security

Suppose you had retired three years later than you actually did/Suppose you were to retire three years later than you are currently planning. Do you think this would make your retirement financially...? (Among those providing retirement age from primary occupation)

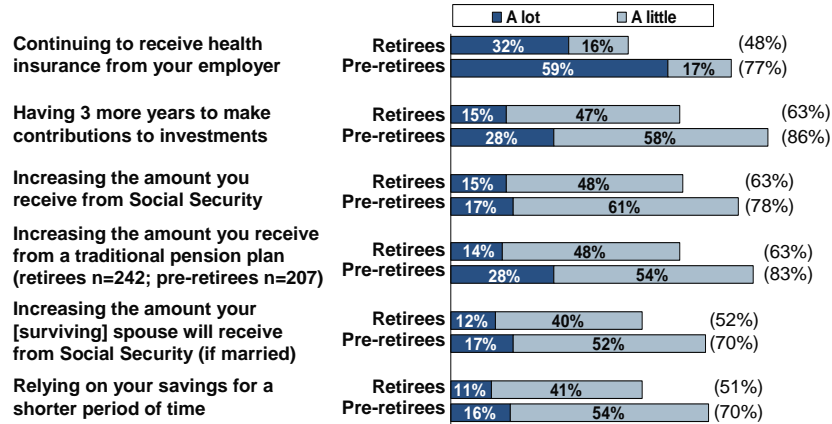


Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey



A lot of the added security comes from continuing employer health

How much, if at all, would each of the following have increased your financial security in retirement [if you retired three years later]? (Among those providing retirement age from primary occupation; Retirees, n=385; Pre-retirees, n=266)



Source: Society of Actuaries, 2007 Risks and Process of Retirement Survey
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Impact of delaying retirement

- CBO Study –
 - Age 62 couple needs 8 – 11 times income in lump sum
 - Age 70 – they need ½ to 2 times income
- Social Security increases with claiming age
 - Age 62 – 2008 monthly maximum benefit \$1,682
 - Age 66 – \$2,030
 - Age 70 – \$2,794
- Medicare – age 65



Changing the Signals

Directions for a better future

- Index (or at least increase) Social Security and pension retirement ages
- Show Social Security options – largest benefit first
- Discuss retirement in terms of wage replacement and sources of support
- Don't forget about the role of defaults
- Build culture of analysis and literacy
- Enhance creative work options
- Remove barriers to phased retirement
- Change retirement terminology – no more “normal” and “early”
- Improve employer near-retiree communication



Bottom line

- Balance messages about leisure, working in retirement with messages about risk, long life and need for income
- New expectations about retirement and work
- New expectations about how to get there

Postscript – paper deals with decisions at time of retirement, but what we save and when creates better options for us.
Saving more and earlier is key!!!!



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