

ANNA RAPPAPORT CONSULTING

STRATEGIES FOR A SECURE RETIREMENTSM



Helping People Make Better Retirement
Decisions: Resources from the Society of
Actuaries

Webcast for RIIA
January 2012



Our Goals Today

- Focus on Key Retirement Decisions
- Understand Decision Resources/How to Use
- Understand Research that Informed Project



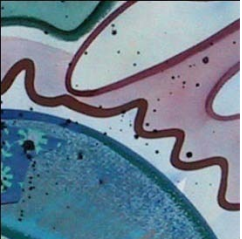
Agenda

- Project Overview/Background
- Briefs
- Research Background
- Managing Post Retirement Risks



Project Overview/Background

- Decisions at or near time of retirement selected as project topic – 2009
- Committee found
 - Decisions complex and overlapping
 - Trade-offs are involved
 - Some decisions are irrevocable, with high financial stakes
- Approach – “Decision Briefs” – short paper on each topic
- Audience – advisors and informed individuals who want to analyze topic
- Set up decisions with general considerations – individual analysis then needed – good introduction for advisors
- Eleven topics selected



Topics for Decision Briefs

- Deciding when to retire
- Dealing with unplanned early retirement
- Special issues for women nearing retirement
- Social Security claiming
- Methods of generating retirement income
- Asset allocation
- Decisions related to health insurance
- Planning for long-term care financing
- Housing considerations
- Estate planning
- How to find reliable financial advice



Thinking About the Decisions: Can They be Changed?

Irrevocable

- Annuity purchase
- DB plan elections
- Rollover into IRA
- Retire from long-term employer
- Buy into Continuing Care Retirement Community (depends on situation)

Can be changed

- Housing decisions – but change can be costly
- Investments and asset mix
- Change long-term care insurance – but could be costly or difficult
- Decision re working in retirement, etc.



Thinking About the Decisions: Timing Considerations

Decisions with Time Constraints

- Benefit elections when leaving employment
- Sign up for Medicare
- Insurance purchase – buy before losing insurability

Decisions with More Time Flexibility

- Housing choices
- When to retire (usually)
- Asset allocation



Deciding when to Retire:

Big Question: When Should I Retire

- Biggest decision for many middle class people
- Research findings: many people have not done analysis, if they plan – plan for too short a time
- Examples of key questions:
 - *Do I have enough money? When should I claim Social Security benefits? What will be the impact of working one more year? Two more years?*
 - *Have I identified passions and things I wish to pursue in retirement? Is special travel on my agenda? What are my preferences with regard to work, retirement, a different set of activities?*
 - *What is likely to change during retirement and how does that affect my plan? Have I built enough flexibility into my plans?*



Dealing with unplanned early retirement: When Retirement Comes Too Soon

“This period in life can throw a monkey wrench into the best laid retirement plans. But those who deal with the decision points carefully will increase the odds of making a smooth transition.”

- Brief looks at minimizing consequences of unplanned retirement, and at considerations and decisions at the time
- Research: Four out of ten people retire earlier than planned
- Examples of considerations at time of unexpected early retirement
 - Severance pay
 - Health benefits
 - Getting legal support
 - Unemployment insurance
 - Finding replacement income
 - Use of pension benefits, 401(k) and IRA accounts
- References to resources provided



Special issues for women nearing retirement: Women Take the Wheel: Destination Retirement

- Links retirement planning issues to circumstances of women
- Research: Women live longer, are likely to be widowed, and have different work histories leading to lower benefits
- Therefore, women more impacted by inflation and have greater chance of running out of money
- Examples of what brief covers:
 - Getting papers in order
 - Reviewing plans for retirement with spouse if married
 - Figuring out needs and fitting in resources
 - Social Security strategies
 - Special issues for divorced women
 - Special issues for unmarried couples



Social Security claiming: Deciding When to Claim Social Security

- Huge issue for middle income people
- How benefits vary by claiming age – PIA = \$1,500
 - Age 62 benefit -- \$1,125
 - Age 66 benefit -- \$1,500
 - Age 70 benefit -- \$1,980
- Strategies for couples
 - Partner in a couple gets own benefit, or a spousal benefit, or survivor benefit
 - Couples may wish to claim at different but coordinated times
- Widows – four of out ten have no income except Social Security
- Special tax issues – taxation of Social Security benefits depends on total income



Methods of Generating Retirement Income: Designing a Monthly Paycheck for Retirement

“Where’s My Paycheck? That is a common question for new retirees and near-retirees when they start mapping out the retirement journey ahead. In their working years they had regular paychecks coming in to cover ongoing expenses. But what will take place in retirement?”

“The market for income annuities is competitive, and low-cost products are available. However, availability of low-cost products is more limited in markets that offer other types of products with guarantees.”

- Overviews product design options
- Provides discussion of tradeoffs



Methods of Generating Retirement Income: Designing a Monthly Paycheck for Retirement

Features	Income Annuity	Other Products with Guarantees	Withdrawals
Guaranteed income for life	Yes	Yes, but at lower level than in income annuity	No
Mortality leveraging	Yes	Some	No
Liquidity/access to funds	Not in most products	Yes, within limits	Yes
Remaining account value goes to heirs on death	No	Yes, after fees for guarantees	Yes
Owner can control funds in the account while income is being paid out	No	Yes, within limits	Yes



Asset Allocation: Treating Asset Allocation Like a Roadmap

“Important: Asset allocation involves careful decision-making. Uninformed decisions made early on may lead to undesirable long-term financial consequences from which retirees may have difficulty recovering.”

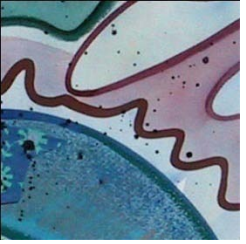
“When starting to do asset allocation, individuals first need to assess their tolerance for taking investment risk.”

“Heads Up: The biggest reason that investment plans fail is the tendency to dump stocks in down markets – exactly at the time when investors should be adding to their stock allocations.”

“...remember that debt is like a negative bond.”

“What’s Monte Carlo?”

- Brief is good conversation starter



Decisions Related to Health Insurance: Securing Health Insurance for the Retirement Journey

“Lack of access to affordable health care can be a major barrier to retirement.”

- Chart lays out key issues – with and without retiree health benefits, before and after Medicare eligibility, before and after 2014
- Discusses special issues for early retirees
- Provides overview of Medicare decisions and options



Planning for Long-Term Care Financing: Taking the Long-Term Care Journey

“Word to the wise: It’s best to plan for the financial resources and a support system that may be needed while still healthy. Making long-term care arrangements at the last minute is certainly possible, but the results may not be satisfactory.”

- Options for paying for long term are
 - Medicaid
 - Private long-term care insurance
 - Use of home equity
- Long-term care insurance basics and considerations



Planning for Long-Term Care Financing: Taking the Long-Term Care Journey

	What does long-term care cost?
\$205/day	National average daily rate for semi-private room in a nursing home
\$21/hour	Home health aide
\$67/day	Care in an adult day health center
\$3,293	National average monthly cost for room, board, and housekeeping services in assisted living communities

US average costs – Source: MetLife Mature Market Institute 2010



Housing Considerations: Where to Live in Retirement

“What-ifs can help: Discussions about housing can be awkward and difficult, but “what if” discussions with a financial planner or adult children may help to establish a rational planning process.”

“Fortunately, unless there is a medical emergency or major financial setback, housing decisions can generally be made in a leisurely fashion, after thoroughly examining various options and their advantages and disadvantages.”

- Research: housing represents huge part of middle American resources
- Housing decisions combine lifestyle, financial and health issues
- Brief overviews key financial issues
- Brief introduces special considerations for CCRCs



Estate Planning: Preparing for the End of Life

- “Estate planning is another word for putting one’s personal affairs in order.”
- Middle market focused
- Introduces wills and trusts, powers of attorney and health care proxies
- Includes an information check-list



How to find reliable financial advice:

Finding Trustworthy Financial Advice for Retirement and Avoiding Pitfalls

“Unfortunately, finding trustworthy advice is not always easy.”

“Another area of caution is a surprising one. This is a person’s personal support system, including family and friends. Many loved ones provide extremely helpful information and guidance, but not always.”

- Includes cautions and things to watch for
- Discusses fiduciary vs. suitability standard
- Discusses basis of payment
- Discusses value of shopping around
- Dark side included with discussion of fraud



Research Background:

Pre-retirees expect to retire later than retirees

**At what age did/do you expect to retire from your primary occupation?
(Retirees retired from primary occupation, 2011 n=765; Pre-retirees
expecting to retire, 2011 n=498)**

Age category	2009 Retirees (%)	2011 Retirees (%)	2009 Pre-retirees (%)	2011 Pre-retirees (%)
Under 55	28	31	1	1
55 to 61	33	30	24	21
62 to 64	20	21	16	16
65 to 67	12	12	35	38
68 or older	4	4	16	17
Don't know	2	2	8	7

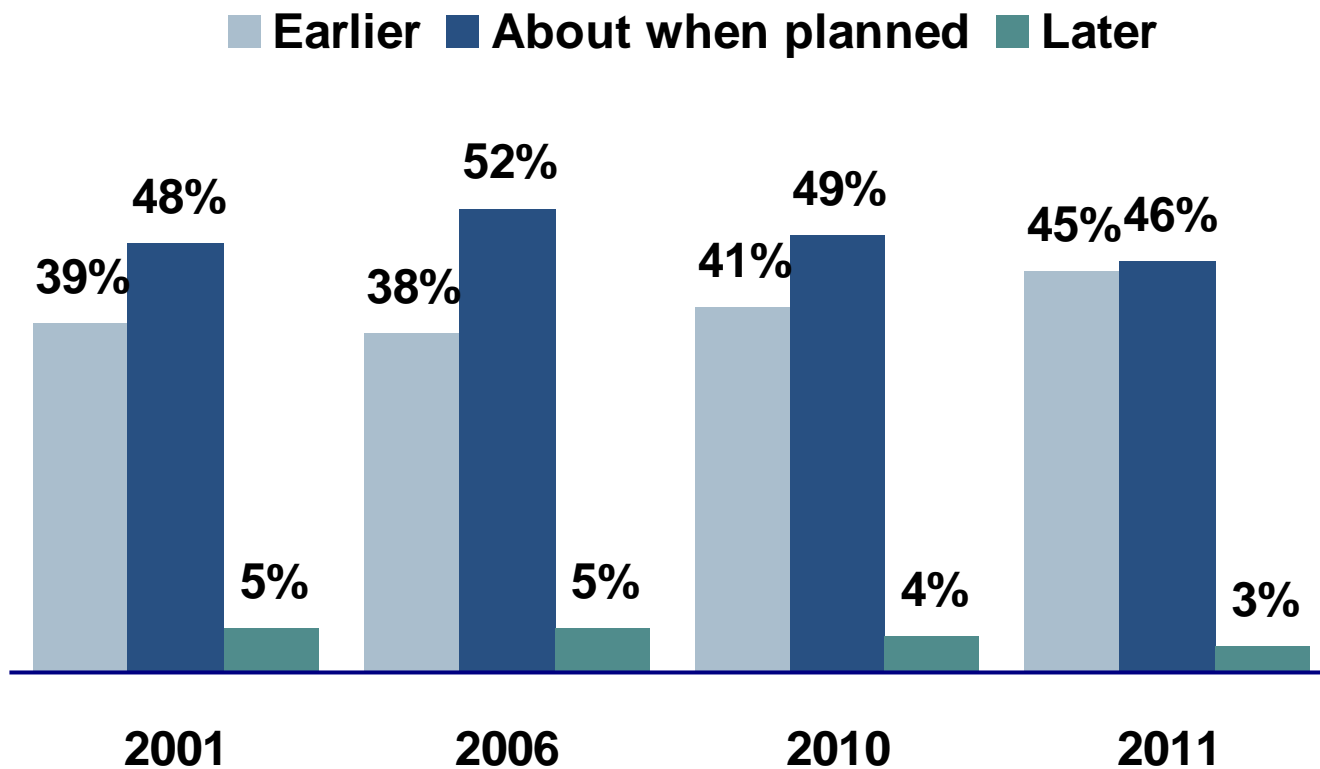
Source: Society of Actuaries, 2009-2011 Risks and Process of Retirement Survey



Research Background:

Many may be ignoring possibility of involuntary early retirement

Did you retire earlier than you planned, later than you planned, or about when you planned? (Retirees, 2011 n=252)



Source: EBRI/Greenwald, 2001-2011 Retirement Confidence Surveys



Research Background:

Importance of Housing Wealth of Middle Income Households Age 55 to 64

Analysis based on 2004 Survey of Consumer Finances

Household Type	Number of Households	Median Income	Est. Median Net Worth	Non-Financial Assets	Financial Assets	Non-Financial Assets %
Middle Mass Households (25% to 75% of households by net worth)						
Married	5.2 million	\$75,000	\$348,000	\$240,000	\$108,000	69%
Single Female	2.5 million	\$28,000	\$111,000	\$75,000	\$36,000	68%
Single Male	1.4 million	\$41,000	\$125,000	\$89,000	\$36,000	71%
Mass Affluent Households (75% to 85% of households by net worth)						
Married	1.0 million	\$132,000	\$1,300,000	\$884,000	\$416,000	68%
Single Female	.5 million	\$58,000	\$415,000	\$299,000	\$116,000	72%
Single Male	.3 million	\$79,000	\$465,000	\$349,000	\$116,000	75%

Note: Financial assets exclude the value of defined benefit pensions and Social Security.

Source: Society of Actuaries – Segmenting the Middle Market: Retirement Risks and Solutions, 2009.



Research Background:

Planning For Retirement: Half of retirees, fewer pre-retirees have planning horizon < 10 years

When you make important financial decisions, about how many years do you look into the future? (Retirees, 2011 n=800; Pre-retirees, 2011 n=800)

	2009 Retirees (%)	2011 Retirees (%)	2009 Pre- retirees (%)	2011 Pre- retirees (%)
Less than 1 year	10	7	1	3
1 to 4 years	20	15	12	7
5 to 9 years	19	26	24	22
10 to 19 years	16	23	37	37
20 years or more	7	11	13	19
Don't know	27	16	12	10

Source: Society of Actuaries, 2009-2011 Risks and Process of Retirement Surveys



Research Background:

Planning For Retirement: Insurance plays only a small role in preparing for increased need

What, if anything, have you done or will you do to prepare for your changing needs in retirement? (Among those expecting less active stages)

Top Mentions (multiple responses accepted)	Retirees (%) (n=330)	Pre-retirees (%) (n=353)
Save (more) money	16	37
Invest to make assets last	15	19
Buy long-term care insurance	11	8
Make home modifications	6	4
Cut back on spending	6	4
Stay healthy/improve health	4	4
Pay off debts	2	5
Nothing	28	15
Don't know	7	7

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

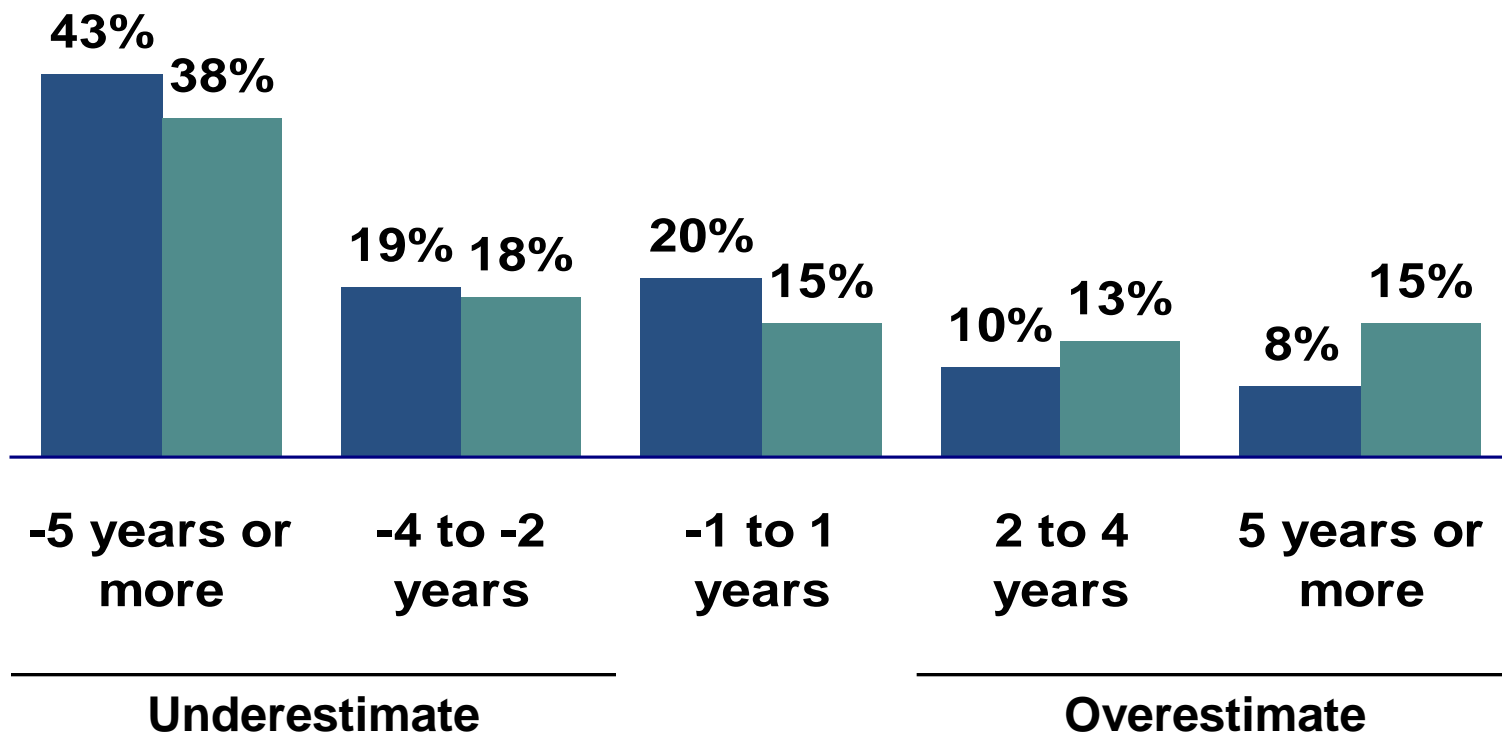


Research Background:

Understanding Longevity: People tend to underestimate population life expectancy

Difference between respondent estimate of population life expectancy and actual population life expectancy (among those providing an estimate)

■ Retirees (n=723) ■ Pre-retirees (n=757)



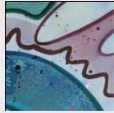
Source: Society of Actuaries, 2011 Risks and Process of Retirement Survey

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Managing Post-Retirement Risks

- Guide to retirement planning
- Identifies 15 risks with information on measurement and management
- Includes some risks not covered by typical software such as business and employment risk, unforeseen needs of family members, fraud



ANNA RAPPAPORT CONSULTING

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anna@annarappaport.com

Phone: 312-642-4720

Fax: 312-642-4330