



STANFORD
CENTER ON
LONGEVITY



RETIREMENT PLANNING IN THE AGE OF LONGEVITY CONFERENCE PROCEEDINGS

May 9-11, 2012

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RETIREMENT IN THE AGE OF LONGEVITY



“To the degree that people reach old age mentally sharp, physically fit, and financially secure, the problems of individual and societal aging fall away.”

– Laura L. Carstensen
Founding Director, Stanford Center on Longevity

Sponsored by The New Retirement Forum™ and Marsh and McLennan Companies

DISCUSSION SUMMARY

Baby boomers planning for retirement face a uniquely challenging environment.

Changes in pension and retirement plans, questions regarding the stability of government entitlement programs, the lingering effects of the recent recession on investments and housing, continued low interest rates and returns, rising healthcare expenses, and longer life spans have made retirement planning an incredibly complex equation.

Current studies show that individuals' confidence in the ability to retire comfortably, or to retire at all, are at new lows. According to the Employee Benefit Research Institute's 2011 Retirement Confidence Survey, 27% of all workers were "not confident at all" about their ability to retire, up 5% from the previous year. The same survey indicated that over the past ten years, the percentage of 55+ workers feeling "very confident" that they will have enough money to live comfortably through their retirement years has fallen from 31% to 15%.

Not only do individuals lack confidence about their ability to retire, they also have very little confidence in their ability to develop and execute a plan through retirement. While retirement planning resources are readily available, many surveys (EBRI 2011, Schwab 2011, ING 2010, AARP 2008, Center for Retirement Research 2008) indicate that in spite of the wide availability of retirement planning advice and materials, most people don't know:

- How much they should be saving for retirement;
- How to allocate their investments;
- How to draw down their investments;
- When to collect social security; or
- How much money they will need to live in retirement

Sponsored by The New Retirement Forum™ with additional support provided by Marsh & McLennan Companies, the Stanford Center on Longevity convened a conference in May 2012 to provide a forum for discussion of this increasingly complex arena of retirement planning and education. The Center's conference model is unique and interactive, and has proven effective in generating focused and productive discussions about the available science in a particular area, coupled with discussion of specific ideas about practical solutions. Participants represented multiple disciplines and perspectives, including wealth advisors and retirement planning practitioners, representatives from organizations providing education materials for retirement, behavioral scientists, economists and communication experts. We appreciate the efforts and engagement of the conference attendees and look forward to their ongoing participation in addressing this complex and incredibly important issue.

The goals of the conference were to:

- Determine why current educational and financial planning efforts have failed to change retirement savings behavior or increase retiree confidence;
- Evaluate how to best communicate to retirement planning professionals, pre-retirees and retirees;
- Define a set of curriculum topics that covers the array of issues facing those near or in retirement; and
- Identify a practical research agenda that supports creating actionable programs and change.

The day-and-a-half long conference started with a "Setting the Stage" discussion which outlined the demographic, economic and cultural changes that make the current retirement scenario so challenging. Dr. Laura Carstensen described why it is so hard for people to make the right choices about aging: nothing in our evolutionary heritage has prepared us to plan for the long term. Human beings have a very difficult time visualizing their "future selves" and they don't work well with uncertainty. These traits make it very easy to avoid thinking about and planning for a distant future.

However, current longevity gains are outrunning our culture's ability to adapt, and we as individuals and as a society need to figure out how to adjust to a lifespan paradigm in which individuals are living far longer lives than in previous generations.

Dr. John Shoven reminded the participants that "Retirement is a 20th century invention." In the context of a changing financial environment, planning for retirement for the middle class has become even more difficult. Previously "safe assets" are no longer generating reasonable interest. Navigating through Social Security is complex, even more complex than people realize – and retirees often make ill-informed decisions about when to retire and how to finance their retirement years.

The conference agenda was organized around the 'pitfalls' that pre-retirees and retirees face when planning for retirement. While the discussion was far ranging and touched on many issues, there were several recurring themes and conclusions.

- *Communications and framing of retirement planning messages and materials are often overly positive or overly negative and instead need to emphasize the complexity and uncertainty of the process. Efforts should be made to:*
 - o Make the messages more realistic; make people more comfortable with uncertainty rather than a need to "get it right."
 - o Make retirement planning part of overall financial planning and talk about it in the context of other aspects of one's financial life.
 - o Break down the effort into manageable milestones and pieces.
- *Greater focus should be placed on creating policy incentives for people to work longer.*
 - o Investigate payroll incentives for employers; create a new class of 'paid up' workers who have maximized their payroll contributions. Employing these workers would provide a discount to the employer.
 - o Change Social Security policies which may encourage early withdrawal of Social Security funds.
- *Endorse more aggressive use of policy defaults, which have been proven to increase savings rates.*
 - o Raise the allowable pre-tax contribution ceiling from the IRS to encourage greater savings.
 - o Incent plan sponsors to participate with fiduciary safe-harbors.
- *Support the efforts of an unbiased expert organization to construct and endorse guidelines to help consumers access and use retirement planning and financial resources.*

To support an ongoing focus on these efforts and other related research questions, the Stanford Center on Longevity and the Marsh and McLennan Companies are partnering to launch the Financial Security Center at Stanford Center on Longevity. The mission of the new Financial Security Center is to become a catalyst for innovative ideas and perspectives on retirement, especially the issues of individual financial literacy, the changing nature and role of work, common financial pitfalls such as fraud, and other key policy issues. The Financial Security Center will bring together academic, policy and business experts in order to facilitate a healthier state of long-term financial security for the individual and society.

ATTENDEES

Laura Carstensen (Co-Chair) — Stanford University
John Shoven (Co-Chair) — Stanford University
Jay Bhattacharya — Stanford University
June Bower — Financial Engines
Chris Bryan — Stanford University
Michele Burns — Mercer Consulting (Marsh and McLennan Companies)
Jackie Charnley — Charnley/Rostvold
Peng Chen — Ibbotson Global Investment Management Division
Marjan Chittae — Mercer Consulting (Marsh and McLennan Companies)
Jeff Clemens — Stanford University
Harry Conaway — Mercer Consulting (Marsh and McLennan Companies)
Elizabeth Costle — AARP: Public Policy Institute
Craig Cross — New Retirement Forum (Halbert Hargrove)
Martha Deevy — Stanford Center on Longevity
Margaret Dyer-Chamberlain — Stanford Center on Longevity
Don Ezra — New Retirement Forum (Halbert Hargrove)
Richard Fullmer — T. Rowe Price Retirement Income Industry Association
Gail Graham — Fidelity
Adele Hayutin — Stanford Center on Longevity
Jane Hickie — Stanford Center on Longevity
Russ Hill — New Retirement Forum (Halbert Hargrove)
Paul Horrocks — New York Life
John Kalamarides — Prudential
Naomi Karp — Consumer Financial Protection Bureau
Christine Kieffer — FINRA Foundation
Judith Kozlowski — Consumer Financial Protection Bureau
Jeff Maggioncalda — Financial Engines
Gary Mottola — FINRA Foundation
Arthur Noonan — Mercer Consulting (Marsh and McLennan Companies)
Tim Noonan — Russell Investment Group
Wade Pfau — National University of Tokyo & Retirement Income Industry Association
Mark Riepe — Charles Schwab
Jason Scott — Financial Engines
Gopi Shah-Goda — Stanford University
Bill Sharpe — Stanford University
Ken Smith — Stanford Center on Longevity
Sally Welborn — Wal-Mart
Ryan Wilson — AARP: Public Policy Institute
Joanne Yoong — RAND

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PITFALL 1: FAILING TO PLAN

“Very little work has been done in investigating how households make saving plans and how they collect all the relevant information to make savings decisions.”

Lusardi, 2003

Summary:

Facing a shifting retirement landscape requires careful planning. Unfortunately, far from planning with care, many Americans fail to make any plans at all — perhaps due to the complexity of calculating the money needed, the confusing array of educational resources, or because they incorrectly anticipate continuing to work indefinitely.

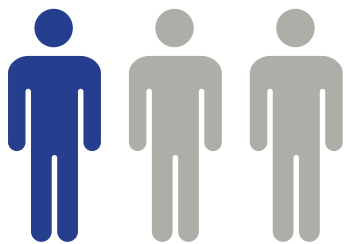
- Only 1 in 3 adults in their 50's have ever tried to devise a retirement plan... and only 2 in 3 of those who tried claim to have succeeded. (Lusardi & Mitchell, 2011)
- Only one-third of pre-retirees say they have a retirement plan, compared to just 57% of retirees. (Society of Actuaries (SOA), 2012)
- The typical retiree reports a financial planning horizon of just five years (median), and a general planning horizon of ten years (median). Just 2 in 10 pre-retirees say they look 20 or more years into the future when making important financial decisions. (SOA, 2012)

Failing to Calculate the Amount of Money Needed

- Fewer than 1 in 5 older Americans (50+) have successfully created a retirement plan. (Lusardi & Mitchell, 2011)
- More than half (56%) of people haven't attempted to calculate how much money they will need in retirement. (Employee Benefit Research Institute (EBRI), 2012a)
- Only 1 in 3 pre-retirees have a plan for how much money they will spend annually in retirement and where that money will come from. 1 in 10 say they “do not know or have not thought about it.” (SOA, 2012)
- Less than 6 in 10 retirees have a plan for their annual expenses in retirement and the source of the money. (SOA, 2012)

Failing to Make Use of Educational Resources

- Those who attempt to calculate what they will need to save use informal methods (1/4 talk to family/friends; 1/5 talk to co-workers/friends) or formal methods (1/3 use retirement calculators, seminars, or financial experts). (Lusardi & Mitchell, 2011)
- Less than half of “middle-income Americans” work with a professional advisor in retirement planning. (Center for a Secure Retirement (CSR), 2011a)
- Only 1 in 5 American workers obtain investment advice from a professional financial advisor who is paid in fees or commissions. (EBRI, 2012a)
- More than half of pre-retirees never consult a “financial professional” for advice or guidance with financial planning. (SOA, 2012)



One third of adults in their 50s have **ever tried** to devise a **retirement plan**.

Lusardi & Mitchell, 2011

Incorrectly Anticipating that Work Will Continue in Retirement

Expectations: More than 7 in 10 American workers think they will continue to work part or full time in retirement. (Gallup, 2011; EBRI, 2012a)

- Approximately 14% of pre-retirees do not intend to retire due to financial need. (SOA, 2012)

Experiences: Only 1 in 4 retirees actually work in retirement (EBRI, 2012a)

- 9% of retirees gradually reduce their hours, 9% continue to work part time, 5% continue to work full time, and 25% stop working initially before eventually returning to paid employment. (SOA, 2012)

DISCUSSION STARTERS

- ▶ What prevents people from developing a plan? Is it simply a lack of motivation, or do individuals lack the necessary skills? What prevents individuals from consulting professionals?
 - ▶ If we can understand the factors behind the lack of planning, are there motivational techniques that could be used to make planning for retirement more likely? Are there ways to break down barriers to the use of professional advisors?
 - ▶ How much of what passes for understanding of individuals' lack of planning is backed by real research and data? How much is simply speculation?
 - ▶ What additional research is needed to understand how to motivate better planning? Is additional data needed? How much of this data can be extracted from existing datasets?
-

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DISCUSSION SUMMARY

Key Discussion Points:

- Message Framing
 - The current message framing around planning for retirement is overly negative or overly positive and emphasizes the complexity and uncertainty of the process.
 - Current messaging that “most Baby Boomers are not ready for retirement” could be subconsciously telling people it’s OK not to be ready – it tells them they are just like their peers, which is comforting.
 - Message reframing must be careful not to promise certainty – which is impossible to achieve – but rather to make people more comfortable with uncertainty.
- Many people avoid looking at the issue directly; yet they feel false confidence that they’ll be able to work things out later or that everything will work out on its own.
- Planning for retirement cannot be isolated from the other parts of a person’s financial life.
 - Given the struggle with personal responsibility in many areas (health, fitness, financial planning), better outcomes may be achieved through other methods (e.g., defaults).

Conclusions:

- Message Framing
 - Make messages about retirement planning more realistic.
 - Make people more comfortable with uncertainty by teaching them how to avoid major mistakes, rather than by stressing “getting it right.”
 - Mirror the sites such as “Dream Big” (aspirational financial planning for adults 30 and under) for those 50 and older.
- Make retirement planning part of overall financial life planning; talk about it in the context of other “pieces of the pie” (e.g., mortgage, travel, etc.).
- Break down the conversation. People can only engage on these painful topics for about 7-10 minutes.

Open Questions:

- What are the psychological and practical barriers that keep people from planning for retirement? Are there any that can easily be eliminated?
- What are the important financial milestones over a lifespan, what are the lifetime costs of each milestone, and how can that information be used to incent planning or change decision making?
- Can message framing change retirement planning behavior?
- What kind of messaging may make people think more positively about financial planning?
- To what extent do pre-retirees avoid planning because they are intimidated to “get it right”?
- Can the process be broken down and discussed in ways that will move people to action?
- Can vivid imagery of the consequences of failing to plan (e.g., “Mom moves in!”) make people more pro-active in order to forestall those events?
- What can be learned and applied from how other social and cultural behaviors have changed that can be applied to changing the perception of financial literacy (e.g., general literacy, smoking, seat belts)?
- What can be learned and applied from other behavior changing programs like Weight Watchers, AA and other peer-support groups?
- If people can only engage for a limited time (7-10 minutes), what are the 10 or so things people ought to address?
- Can further use be made of “future selves” research to encourage retirement planning? Can it be made into a game?

PITFALL 2: UNDERESTIMATING EXPENSES

“Half of workers thought they would need 70% or less of their preretirement income to live comfortably in retirement and only about one in 10 believed they would need 95% or more. When this is compared to the amount of income that retirees stated they currently had in retirement to support a comfortable lifestyle, the discrepancies are evident as only about one-third said they lived on 70% or less of their preretirement income while more than half stated they lived on 95% or more of this amount.”

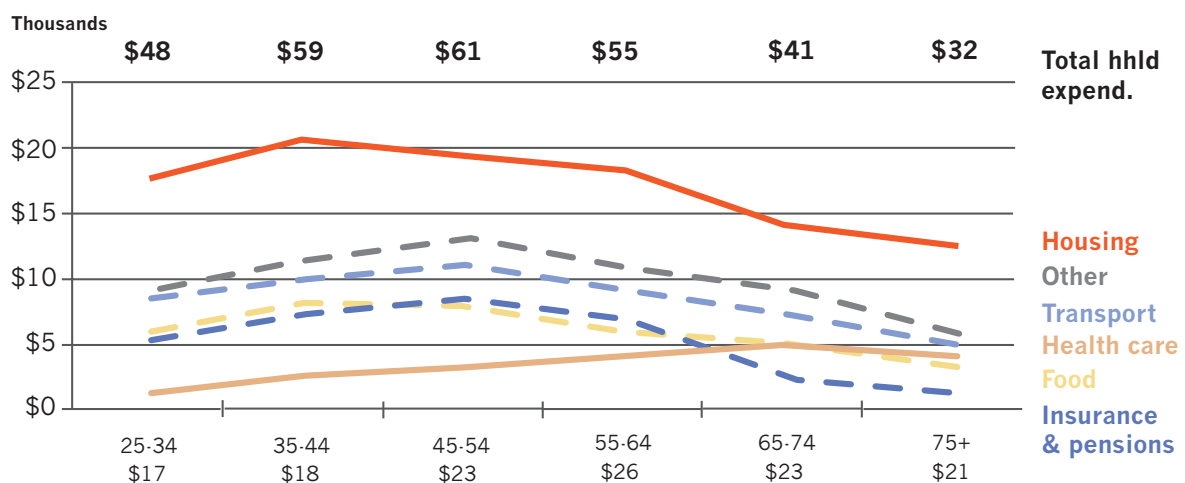
Willett, 2008

Summary:

One of the challenges facing pre-retirees is accurately predicting changing expenses as they age, including medical costs, debt, and accounting for inflation. While median household expenses decline with age, housing related expenses remain the single largest spending category (see graph below). Health care expenses are the second largest component, and these steadily increase with age. (EBRI, 2012b)

**Housing is the largest expense at all ages;
health care spending increases with age.**

Average annual household expenditures by age of household head, 2008



Failing to Appreciate the Cost of Health Care and Long-Term Care

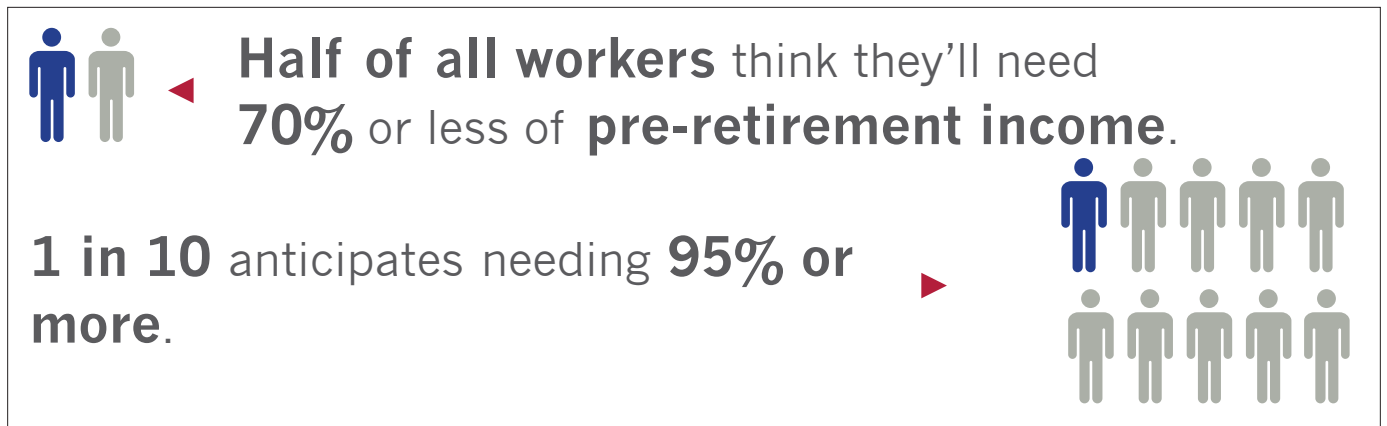
- Many Americans don't understand the costs of health care in retirement. "43% of middle-income Americans are paying more for healthcare with Medicare than they expected they would." (CSR, 2012)
- Long-term care can be a very large cost, and is hard to predict. "A typical married couple age 65 can expect lifetime uninsured healthcare and nursing home costs of \$260,000." (Center for Retirement Research at Boston College, 2010)

Failing to Consider Debt

Mortgage Debt

“About a third of the 65 and older households that owned a home in 2009 had a mortgage, according to the Census Bureau’s American Housing Survey, which also put homeownership in this age group close to 81 percent during the second quarter of this year.” (Elmer, 2011)

- The proportion of families with housing debt has increased. The median amount owed also is on the rise. 55% of families headed by a person 55-64 had housing debt in 2007, compared with 41% in 1992. (EBRI, 2009)
- Housing debt is problematic as incomes decrease in retirement and individuals choose to age in place. 9 in 10 older households express the desire to stay in their homes as long as possible. (Center for Housing Policy, 2012)



Willett, 2008

Consumer Debt

- Consumer debt is on the rise, as is the median amount owed. 1 in 2 families headed by a person 55-64 had credit card debt in 2007, compared with about 1 in 3 in 1992. (EBRI, 2009)

Failing to Consider Inflation

“Inflation is when you pay fifteen dollars for a ten-dollar haircut you used to get for five dollars when you had hair.”

-Sam Ewing

- Compared to other planning activities, only 72% of pre-retirees and 55% of retirees are calculating the effects of inflation on their retirement planning (SOA, 2011). This highlights the need for individuals to better understand and manage inflation and longevity risks when planning for retirement.
- At the same time, retirees and pre-retirees express high levels of concern about the value of their savings keeping up with inflation (69% of retirees and 77% of pre-retirees). (SOA, 2012)

DISCUSSION STARTERS

- ▶ What is a good “rule of thumb” for the expense level most people should be planning for in retirement, compared with pre-retirement? What are the major factors that might alter this estimate?
 - ▶ Is there an equivalent “rule of thumb” for estimating the cost of healthcare? What is this number for those under 65 vs. those eligible for Medicare?
 - ▶ How much money should be allocated in a retirement portfolio to long-term care expenses? Very few individuals obtain long term care insurance – is this the right choice?
 - ▶ Mortgage debt is increasingly a part of the retirement portfolio. For those with such debt, are there creative approaches to dealing with that debt during retirement? Are options such as reverse mortgages, shared housing, and intergenerational housing viable?
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DISCUSSION SUMMARY

Key Discussion Points:

- Long-term care insurance
 - o There are a number of issues: people don't trust the providers, contracts often underestimate required benefits, the market for providers is drying up, qualifying for a payout is complicated, what is covered is not very clear, and it is very hard for providers to price it.
 - o Different types of policies are needed (e.g., self insure for 'x' years then insurance covers tail end).
 - o Given the current market for products, there is no 'one' recommendation to be made to pre-retirees on how they should (and if they should) have long-term care insurance.
- Debt
 - o The number of people entering into retirement with significant debt (mortgage and consumer) has tripled and the size of that debt has quadrupled.
 - o Holding mortgage debt may be a good, rational decision given its tax treatment.
 - o Debt is not created equal; there is greater risk with different types of debt (e.g., student loan debt).
- Retirement "replacement spending rate" estimates are overly simplified
 - o Healthcare costs, debt, and inflation are difficult to estimate when planning for retirement.
 - o Housing is too often considered a "fixed" cost which doesn't account for likely changing circumstances (e.g., remodeling or relocating to accommodate aging issues).
 - o Expense planning needs to be personalized – built bottoms up, and consider personal goals in retirement that may change over time.
 - o Expense planning based on current income at retirement may not be reflective of expenses – people at the same income rate may be spending at very different rates.
- People seem to navigate their reduced expenses and find ways to live within their means. What trade-offs are being made and how do they affect quality of life?

Open Questions:

- Is there a better, more accurate replacement rate estimate than those used today for retirement expenses (e.g., 70% of pre-retirement expenses)?
- In what ways do people adjust their spending in retirement to live within their means and does it affect 'happiness' and/or quality of life?
- What really is the cycle of spending pre-retirement and in retirement, and how does it change during retirement?
- What is the industry/customer impediment to creating an array of long-term care products?

PITFALL 3: UNDERESTIMATING YEARS IN RETIREMENT

“[F]orecasters, regardless of the techniques they use, have consistently underestimated how long people will live.”

IMF, 2012

Summary:

The failure to adequately estimate the number of years in retirement is experienced both by individuals as they plan their own retirement as well as by governments and institutions as they model pension and entitlement program expenses.

The resulting financial implications are quite large. If the average life span increases 3 years by 2050, as expected, the ‘cost of aging’ would increase by 50%. There is little data on how people think about longevity or why they choose a particular estimate for their own lifespan, yet how long people expect to live sets an important context for longevity risk in retirement planning. Longevity data used for planning purposes, both individual and institutional also regularly underestimate life expectancy. There are gender, socio-economic and health differences in longevity estimates but in general people do not appear to understand the true extent of the risk. Commonly accessed planning tools don’t provide much help to the individual either; either by being too heterogeneous or simplistic or by failing to provide needed context for customization.

Underestimating the Number of Years in Retirement

- The accumulated evidence suggests a prevailing tendency for people to underestimate their longevity. (O’Connell, 2010)
- 2 in 3 pre-retiree men underestimate the life expectancy of the average 65-year-old man. Of that group, 42 percent underestimate average life expectancy by 5 years or more. Roughly half of pre-retiree females underestimate the life expectancy of the average 65-year-old woman. (SOA, 2011)
- Men appear to underestimate longevity by less than do women. (O’Connell, 2010)
- The number of people who don’t know what estimate to use forms a sizable group (+21%). (O’Connell, 2010)
- Policy makers cannot assume that people share a rationale to prepare for a retirement of a realistic length or that people believe that policy rhetoric about working longer as a response to longer lifespans applies to them. (O’Connell, 2010)
- There is almost no data on how people think about lifespan or little explanation for how underestimation of longevity occurs. (O’Connell, 2010)
- Older workers nearing retirement are not well informed about company and national retirement plans and that incorrect knowledge affects retirement planning. (Clark et al., 2010)

Using Incorrect Assumptions for Life-Span

- The main source of longevity risk is (the) discrepancy between expected and actual life spans, which have been large and one-sided; forecasters, regardless of the techniques they use, have consistently underestimated how long people will live. (IMF, 2012) (Table 4.1.1)

Longevity trends - 1970-2050 (In years)

	Observed			Projected	
	1970-2010	Increase per year	Standard deviation	2010-2050	Increase per year
Change in life expectancy at birth					
United States and Canada	8.2	0.20	0.14	4.3	0.11
Advanced Europe	8.6	0.21	0.13	4.7	0.12
Emerging Europe	1.1	0.03	0.36	6.8	0.17
Australia and New Zealand	10.8	0.27	0.27	4.9	0.12
Japan	10.8	0.27	0.23	4.6	0.11
Change in life expectancy at age 60					
United States and Canada	4.9	0.12	0.11	3.1	0.08
Advanced Europe	5.7	0.14	0.13	3.7	0.09
Emerging Europe	0.6	0.02	0.18	3.8	0.09
Australia and New Zealand	7.2	0.18	0.23	3.7	0.09
Japan	7.7	0.19	0.19	3.7	0.09

Failing to Adjust Perceptions to Current Reality

- Many workers are adjusting their expectations about retirement, perhaps in response to their reduced level of confidence about their retirement finances. (EBRI, 2012a)
- The actual age of retirement has increased even more slowly. There is a considerable gap between retirement expectations and experience. The median “expected” retirement age is 65, the median “actual” age is 61. (EBRI, 2012a)
- There is a large discrepancy between pre-retirement confidence in having paid employment for as long as needed vs. the actual experience of retirees. (EBRI, 2012a)
- The big question is whether there will be employment opportunities available for those who want to continue working. (EBRI, 2012a; Munnell & Sass, 2008)
- Projections based on the 2010 census indicate that Labor Force Participation rates for those over 65 will increase dramatically between 1980 and 2018. (U.S. Census Bureau Statistical Abstract)

Labor Force Participation

(percent)	1980	1990	2000	2005	2010	2018 (proj.)
Male (total)	77.4	76.4	74.8	73.3	71.2	70.6
55-64 yr.	72.1	67.8	67.3	69.3	70	71.2
65+.	19	16.3	17.7	19.8	22.1	26.7
Female (total)	51.5	57.5	59.9	59.3	58.6	58.7
55-64 yr.	41.3	45.2	51.9	57.0	60.2	65.3
65+.	8.1	8.6	9.4	11.5	13.8	18.9

DISCUSSION STARTERS

- ▶ How should retirement planning deal with the uncertainty inherent in longevity estimates? Should it depend on a ‘fixed’ date? Are there alternative measures of age that should be used for planning?
 - ▶ Research indicates that there doesn’t seem to be a rationale for why people underestimate their longevity – why? What can be done?
 - ▶ Why do pre-retirees often ignore important information about retirement dates and plan pay-outs? Are the answers best directed at educating individuals or changing policy?
 - ▶ What can be done to further influence the trend to ‘work longer’ and increase the number of income earning years?
-

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DISCUSSION SUMMARY

Key Discussion Points:

- For two main reasons, people underestimate their likely years in retirement:
 - People generally stop working before they expect to retire.
 - Even those few people who think about lifespan are likely to underestimate it (this includes individuals and policymakers).
- There is particular trouble understanding “remaining life expectancy,” as opposed to life expectancy at birth.
- Most people face situations and circumstances too complicated to plan themselves.
- Information is not enough if people view themselves as “exceptions” to the rule.
- People are generally unable to plan effectively more than 10 years into the future.
- The products that are available (e.g., annuities) that can hedge the risk of inaccurately estimating lifespan are complicated or viewed by investors with skepticism.
- The solution is multi-pronged. People need to more accurately project their lifespans, workers need to work longer, employers need to be more open to keeping and hiring older workers, and government programs and policies need to be changed to incent working longer.

Open Questions:

- What are the most effective methods for improving individual estimates of lifespan? Potential methods include education, improved rules of thumb, customized tools/calculators, and behavioral economics (framing, positioning choices, and vocabulary).
- How should financial products be used to help manage the uncertainty of long lifespans? Are the right products available? How should they be marketed so as to reach the market that needs them (e.g., “insurance”)?
- Does breaking down financial planning into shorter horizons and milestones improve an individual’s forecasting ability?
- What would encourage employers to maintain older workers so that individuals are not retiring prematurely?
- How can we change the traditional definition of “retirement” as a period of withdrawal to a period of continued contribution?

PITFALL 4: RETIRING TOO EARLY

“Regardless of those retirement age expectations, and consistent with prior RCS findings, half of current retirees surveyed say they left the work force unexpectedly due to health problems, disability, or changes at their employer, such as downsizing or closure.”

EBRI, 2012a

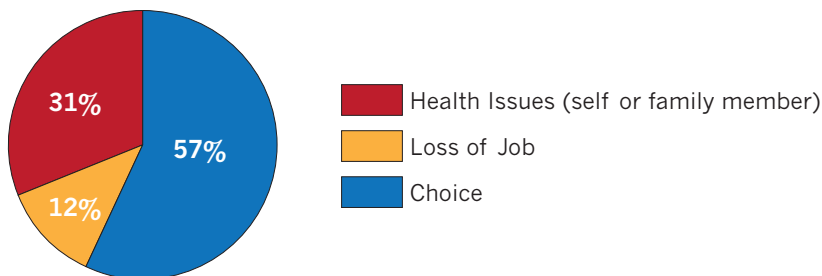
Summary:

The decision of when to retire includes factors ranging from health to financial to psychological. Unfortunately many retirees make the decision to retire too soon from a financial perspective. In many cases working only a few more years can have a significant impact on the quality of retirement for the remainder of life. Social Security often represents a significant portion of post-retirement income and individuals frequently compound the problem of retiring too early by also electing to take Social Security payments as soon as eligible (currently age 62). Most economists agree that delaying Social Security, especially in the current era of low interest rates, produces the best financial outcomes.

For a period of approximately 30 years from the 1960's through the mid 1990's, retirement age decreased, even as life span increased, creating longer and longer retirements supported by fewer working years. This trend has reversed in the last 15 years, and retirement ages are now increasing.

Failing to Realize that Retirement Might Not Be by Choice

Approximately half of all people who retire do so by choice. (SOA, 2012) The breakdown is as follows:



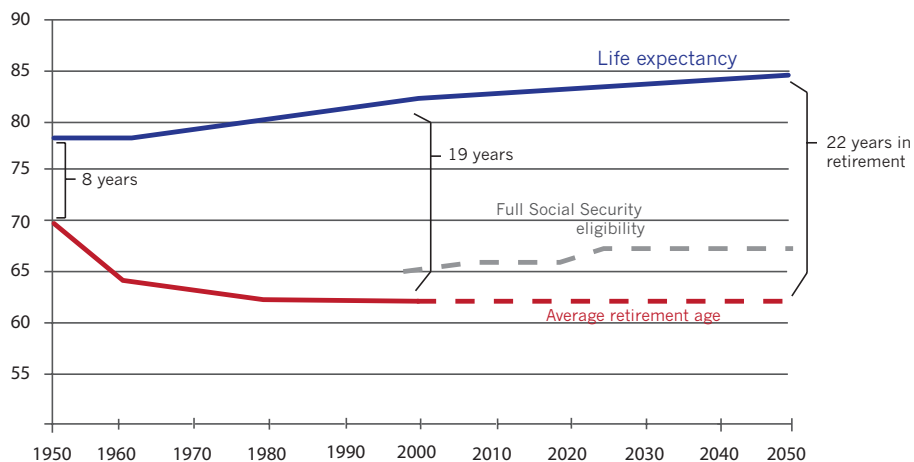
This was confirmed by the EBRI – “Regardless of those retirement age expectations, and consistent with prior Retirement Confidence Survey findings, half of current retirees surveyed say they left the work force unexpectedly due to health problems, disability, or changes at their employer, such as downsizing or closure.” (EBRI, 2012a)

Incorrectly Anticipating Retirement Age

- After a steady decrease over the previous 35 years, retirement age for men has been rising since 1996. The average age of retirement for women has been increasing since the early 1960's.
- There is a long term trend toward workers' expectation that they will work beyond age 65:
- “Twenty-five percent of workers in the 2012 Retirement Confidence Survey say that the age they expect to retire has changed in the past year. In 1991, 11 percent of workers said they expected to retire after age 65, and by 2012 that has grown to 37 percent.” (EBRI, 2012a)

Retirement now lasts 20 years.

Retirement age and life expectancy at age 65, men



Taking Social Security Too Early

The majority of retirees choose to begin receiving Social Security payouts within a few months after age 62 or immediately after they stop working, even though it is almost always beneficial to delay the benefits. A study by Shoven and Slavov concludes that most retirees are leaving money on the table.

There are “spikes” in the retirement age data at ages 62 and 65. Some psychologists argue that early Social Security eligibility at age 62 and perception of “normal” retirement age at 65 serve as reference points that influence peoples’ decisions to retire at these ages. (Knoll, 2011)

Failing to Understand Employer Concerns About Older Workers

Employers have not shown significant desire to retain or hire older workers. Relative productivity (combined with relatively higher wages), the increased cost of healthcare, and the perception of older workers having “outdated” skills are prominent concerns.

Conversely, older workers tend to be more educated, and changes in the workforce -- including less physically demanding jobs and defined contribution pensions -- make older workers competitive with, if not more appealing, than younger workers. The large-scale exiting of the workforce by baby boomers should also increase demand for workers generally.

(Munnell & Sass, 2008)

DISCUSSION STARTERS

- ▶ What are the factors that cause people to believe that they will work longer than they actually do? Are there ways to help people make more accurate estimates?
- ▶ What are the key factors in the decision to retire? What is the right type of analysis to perform as part of making the retirement decision? How can people be influenced to analyze their financial situation accurately before making the decision to stop working?
- ▶ What are the factors that cause individuals to take Social Security payouts as soon as eligible, even though analysts agree that waiting to receive these payments is a better deal? What has been tried from an educational standpoint to alter this behavior? How effective was it?
- ▶ Are employers correct in assuming that older workers will be less productive at a higher cost than younger ones? Are there policy changes that could be enacted to nullify these discrepancies? Will demographic shifts eventually increase demand for older workers?

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DISCUSSION SUMMARY

Key Discussion Points:

- The current situation is that we are trying to fund 30 year retirements with 40 year careers – it's an equation that just won't work.
- There are many reasons why employees might be taking early social security withdrawal and they all need to be addressed:
 - o Failing to understand the financial implications of early social security withdrawal.
 - o Skepticism about the long-term viability of the Social Security program.
 - o Incentives within the Social Security system itself which encourage early withdrawal (Social Security employee compensation goals).
 - o Individuals' cash flow needs.
- Employers are not incented to keep older works. Policies are needed to encourage working longer.
 - o Create a new "paid up" class of worker which would eliminate payroll taxes for those with 40 years of covered earnings.
 - o Create health care incentives which offset the increased costs that employers incur with older workers.
- Employees need to play a part as well, keeping skills current, staying healthy, re-negotiating their contracts if necessary, and changing their perceptions about late career expectations.

Conclusions:

- Establish a new class of "paid up" employees who have maximized their payroll contributions. These employees would provide a discount to the employer and potentially reduce age discrimination.
- Establish Medicare as the primary health payer after a certain age (rather than employer-subsidized health care). This would potentially encourage the employment of older workers.
- Remove the incentive of employees in the Social Security offices to sign individuals up to receive early payouts, or payouts immediately on signing up for Social Security.
- Without changing actual benefits, change "full retirement age" to 70 to provide a higher reference point (to assist in shifting expectations).
- Recommend "series" use of assets, by spending through private assets in retirement first, then claiming Social Security later at a higher rate.

Open Questions:

- What are the primary incentives and motivations for individuals to withdraw Social Security early?
- What proportion of the population is able but unwilling to delay Social Security withdrawal?
- Will the framing of the "early withdrawal decision" of Social Security as a loss or penalty change withdrawal behavior?
- To what extent does lack of confidence in the viability of the Social Security program influence withdrawal rates? Will increasing confidence in the program result in delayed withdrawal?
- What are the most effective incentives that keep workers in the workforce longer?

PITFALL 5: FAILING TO SAVE ENOUGH

“When asked what they thought about their financial condition for the future, the only age group where a plurality felt that they had saved enough was the group born before 1941”

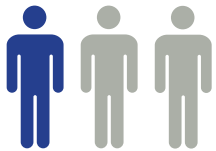
Independent for Life, a Stanford Center on Longevity publication

Summary:

Many of the members of the Boomer generation believe that they have failed to save enough for retirement, and there is good evidence that this is true. Declines in defined benefit plans and the impact of the Great Recession are significant trends affecting retirement savings for this generation.

- Two-thirds of middle-income Boomers feel they are behind where they expected to be at this point in their lives in terms of financial readiness for retirement.
- Half of middle-income Boomers are not confident that they have saved enough to live comfortably in retirement. Only 1 in 10 feel confident about the adequacy of their retirement savings.

(CSR, 2011a)



◀ **One third** of older American workers (age 55-64) say they have **less than \$10,000** in retirement savings.

EBRI 2012

Failing to Save Adequately While Working

- Less than half of all workers participate in an employer sponsored savings plan (77% of those eligible to participate) and only 40% have an IRA. (Willett, 2008)
- More than 1 in 3 workers in 2008 had savings (retirement plus other) of less than \$10,000. Those with savings of \$250,000 or more represented only 12% of workers in 2008. (Willett, 2008)
- More than half of middle-income Boomers have saved less than \$100,000 for retirement. One-fifth have saved less than \$10,000. (CSR, 2011a)

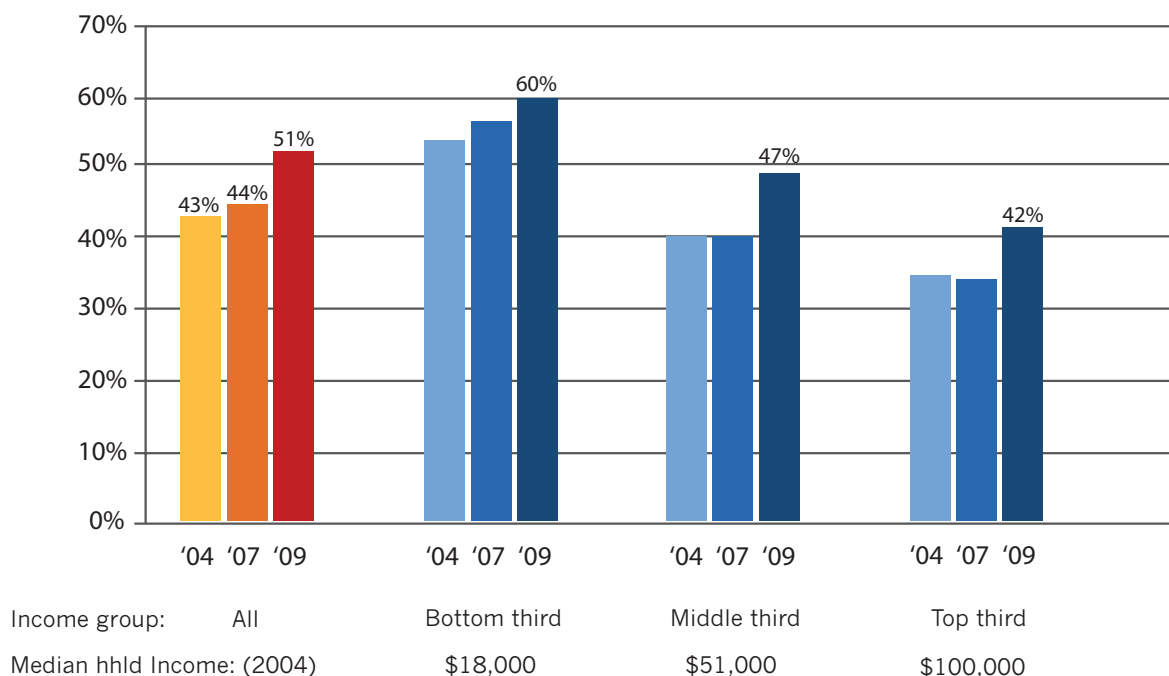
- Only 1 in 5 Americans say they are saving for retirement by contributing to an Individual Retirement Account (IRA), according to a survey by TIAA-CREF, a leading financial services provider. (TIAA-CREF, 2012)
- 14% of middle-income Boomers do not have any type of retirement account. (CSR, 2011a)

Failing to Adjust to Reductions or Elimination of Defined Benefits

- Nearly 60% of those born between 1936 and 1940 have defined benefit plans. 50% of those retiring now have defined benefit pensions, and only 44% of those retiring approximately 20 years will have them. This affects retirement security. (Green & Painter, 2012)

Half of all households risk being able to maintain their standard of living in retirement if they stop work at 65.

National Retirement Risk Index: % of households projected to be “at risk” of insufficient retirement savings at age 65



Inability of Investments to Recover from the Great Recession

- Two out of three middle-income Americans age 47 to 65 have experienced a decline in the value of their retirement accounts since 2008; one in three of those have not seen any rebound in value as of March 2011. (CSR, 2011a)

DISCUSSION STARTERS

- ▶ What can be done to incent Boomers to save more for retirement? Are there new ways to look at incentives? What type of research is needed?
 - ▶ What is a realistic expectation for savings behavior? Is there a need to re-think savings goals in an era of minimal earnings growth and low rates of return on investment?
 - ▶ Given the lack of savings, what are other options for achieving an acceptable quality of life in retirement? Examples might be behaviors such as working longer, cutting expenses, or creative ideas such as shared housing.
 - ▶ Is it reasonable to expect that people will be able to survive on Social Security only? How can pre-retirees be educated on what quality of life will be like on Social Security before they make a retirement decision?
-

Sources

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DISCUSSION SUMMARY

Key Discussion Points:

- The failure to save may be about failing to understand and adjust to the shift from defined benefit plans to defined contribution plans.
 - Increased complexity – Baby Boomers need to reach a retirement dollar figure rather than a retirement age.
 - The decision and burden to save is now on the worker.
- Defined contribution plans have placed the burden of decision-making on individuals, and given the complexity of the process, successful independent retirement saving may be too much to ask.
- Research and experience has shown that defaults work. More widespread use of defaults, as well as education, may lead to more successful outcomes.
- Employer matching rates are often construed by the employee as a recommendation – there is great risk that employees who ‘do as they’re told’ and match up to the limit will fall short of what is required for retirement.
- Defaults can be harmful in a heterogeneous population. Requiring choice (rather than opt-in or opt-out) is a functional alternative.
- There needs to be some acknowledgement that many people fail to save because they do not have enough money.
- Is there an opportunity to improve savings rate by making it fun? Websites like PiggyMojo and HelloWallet are trying to do that –we need to watch how successful they are.
- There needs to be some focus on the 50% of the population who don’t have access to an employer sponsored retirement plan. There is pending legislation in Washington to provide a pooling program for small businesses and those programs should have the same default options as the larger employer programs.
- There is value in re-addressing the defined contribution structure and figuring out ways to make it more defined benefit like: simplifying the process of keeping track of all accounts, seeing the whole picture, the use of defaults and mandates in the accumulation phase, and the use of structured products in the withdrawal phase.

Conclusions:

- Simplify defined contribution structure so everyone has only one account (either automatically enroll accounts or keep accounts with individuals).
- Support legislative activities to provide a small business retirement plan option.
- Increase the use of defaults and raise the ceiling on default contributions. Ensure that defaults will get people successfully to and through retirement.
- Incent plan sponsors to participate with fiduciary safe-harbors.
- Raise the allowable pre-tax contribution ceiling from the IRS to encourage greater savings.
- Use existing Social Security contributions to set defaults, and thus get an implicit government recommendation. To get twice Social Security income, you need to contribute at twice the Social Security rate.

Open Questions:

- What are the reasons why people fail to save? What proportion of the population falls into each category?
- Would changing the “target” for retirement from age (e.g., 65) to dollars improve understanding about what is required? Would that change behavior?
- What is the ‘right’ target number and how can that be translated into a savings target?
- How expansively can defaults be used to increase savings rates and behaviors?
- How elastic is the willingness to continue to participate in defaults as they escalate?
- How can matching employee contributions be harnessed to encourage higher savings?
- Do behavior changing programs and websites improve savings behavior?
- How can programs and policies be changed to take into account work interruptions?

EDUCATION AND ADVICE

How Pre-Retirees/Retirees Access Information

“[H]as anyone actually examined why people generally spend more time planning their one or two weeks of vacation than they do the 20 or 30 years or more that they will likely have in retirement?”

Willett, 2008

Summary:

With the responsibility for retirement income shifting from employers to individuals, there has been an increased emphasis on educating workers to take control of their retirement finances. Identifying which resources individuals are likely to use and what educational/advisory methods are likely to stimulate appropriate action are important first steps in changing retirement planning behavior.

Sources of retirement information

Most pre-retirees and retirees do not get their information from professionals. The reported preference for methods of consuming retirement information is incongruent with actual individuals' experiences. Surveys of methods used generally do not account for use of the internet as a resource.

Reported Preferences:

- Respondents were most likely to say they would make use of short retirement workshops during the workday (48%) and face-to-face sessions (47%), and least like to use online resources (18%) and phone counseling (14%). (Willett, 2008)

Reported Experiences:

- The broad population gets retirement information most often from financial planners/brokers (28%, including insurance agents and other professionals), magazines/newspapers (27%), “calling around” (25%), relatives/friends (21%), materials in the mail (11%), accountants/lawyers (10%). (Lusardi, 2003)
- Less than half of “middle-income” Americans age 55-75 work with a professional advisor to prepare for retirement. (CSR, 2011a)
- Of those without a professional advisor, the most common source of information for middle-income Americans is the internet (50%), followed by family/friends (38%), membership associations (35%) and newspapers/magazines (34%). Less than 1 in 4 get their information from their employer. Insurance agents (13%), television (13%) and financial planners (7%) are the least frequent sources of retirement information. (CSR, 2011a)

Moving people to action

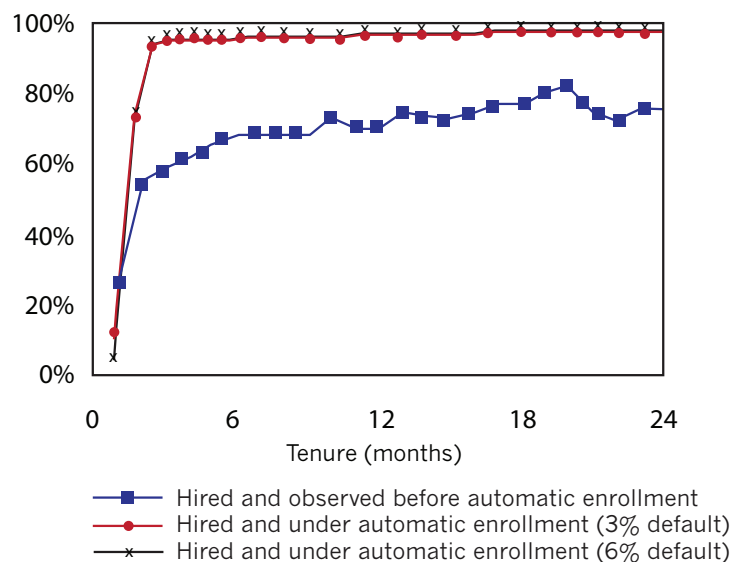
Developing Financial Literacy

- Americans' lack of financial knowledge has been repeatedly confirmed in many studies showing that well over half of the population fails to correctly answer relatively simple financial questions. (Bernheim, 1994, 2003, Hilgert and Hogarth, 2002, Lusardi and Mitchell, 2006)
- More recent studies have linked financial literacy to retirement planning and that retirement planning is a “powerful predictor of wealth accumulation; those who plan have more than double the wealth than those who have done no retirement planning.” (Lusardi and Mitchell, 2009)
- “[F]inancial education in the workplace can exert a strong influence on personal financial decisions.” (Bayer, Bernheim, Scholz, 2008)

Setting Default Options

- 19% of large U.S. employers used automatic enrollment in 401(k) plans as of 2005 (up from 7% in 1999). (Hewitt Associates, 2009)
- The likelihood of having automatic enrollment in 401(k) plans was much higher in large (24%) than in small firms (1%) as of 2005. (Plan Sponsor Council of America, 2005)

Automatic enrollment for new hires and savings plan participation: Company A



(Beshears, Choi, Laibson & Madrian, 2006)

Appealing To The “Future Self”

“To those estranged from their future selves, saving is like a choice between spending money today or giving it to a stranger years from now.” (Hershfield et al., 2011)

- Though most retirees will need “something more than leisure activities to be truly happy,” less than 1 in 5 pre-retirees have planned for activities in retirement that will allow them to remain challenged and engaged. (Willett, 2008)

DISCUSSION STARTERS

- ▶ Does retirement/pre-retirement education help? What method is most effective? Do we have enough evidence to say this definitively?
- ▶ How do we encourage more people to make use of educational resources? Are the available resources reaching the right people?
- ▶ Are there creative new methods of education that should be explored further?
- ▶ What delivery methods (internet, magazines, in-person) work best? What areas still need exploration?

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DISCUSSION SUMMARY

Key Discussion Points:

- Consumer perspectives towards financial planning vary:
 - o “Teach me” (education)
 - o “Tell me” (advice)
 - o “Do it for me when I ask” (management)
 - o “Do it for me unless I ask you not to” (defaults)
 - o “Make me” (mandates)
- People at different levels on this list need different levels/types of education — but the vast majority (80-85%) don’t want to do it themselves.
- A large part of the problem is getting people to engage in the discussion.
- The education focus should be on making individuals good consumers of financial resources in a scalable way.
 - o Access needs to be expanded. 60-70% of the population does not have access to any kind of advice. New media sources can identify ways to get people to respond; infographics, story-based content, and social media can all make financial advice more relevant.
 - o New technology driven delivery models of education and advice need to be explored (e.g., Khan Academy)
- Policy changes are needed to encourage broader engagement of the population (e.g., change the sales model to fee for service vs. commission [like UK, India, and Australia]).

Conclusions:

- Create a comprehensive set of guidelines for consumer to use when utilizing financial planning resources, including but not limited to:
 - o How and when to seek advice;
 - o How to choose a good advisor;
 - o Where to find advice resources (for those who don’t have access to professional advice)
- Create evidence based communications guidelines to be used when talking about retirement and planning with consumers. For example, don’t emphasize “bad behavior” (as this simply provides popular endorsement).
- Identify an unbiased expert source to create and disseminate the guidelines

Open Questions:

- How can we teach people to be good consumers of investment management/advice? For instance, how can we teach people to distinguish between good advice and good outcomes?
- What are the limits of establishing defaults around retirement planning, as opposed to teaching, advising, or managing?
- How can we make it cost-effective for middle-income Americans to receive retirement planning advice?
- How can the communications challenge around health be harnessed for the dissemination of information on how to choose an advisor?
- How can we get the information people need to those without financial advisors? For example, non-interpersonal mechanisms, such as games, stories, etc.?
- Are there policy changes that could be made to align advisors’ interests more closely with the interests of advisees?
- Can the positive framing of exercise messaging be harnessed to encourage people to engage with financial literacy and planning?

THE CURRICULUM

What Pre-Retirees/Retirees Need to Know

“The problem of developing an appropriate personal financial plan is extraordinarily complex. Ideally, a plan should account for earnings, earnings growth, assets, current and future rates of return, pension benefits, social security benefits, special needs... household composition, current and future tax law, mortality probabilities, insurance rates, risk-return trade-offs, and a host of other factors. Under these circumstances, is it reasonable to assume that the average individual makes well-informed financial decisions?”

Bernheim, 1994

Summary:

There is ample evidence that financial literacy is an important element of retirement planning, yet studies continue to highlight that a relatively small portion of the population has the financial knowledge needed for the task. Despite widely available retirement planning resources, there is consensus that pre-retirees and retirees often fail to adequately prepare for retirement. While this is no doubt due to the complexity of the task, it may also be due in part to the lack of a clear message from financial educators. Commonly accessed retirement planning resources present inconsistent recommendations and assumptions which often miss key topics — topics critical to the development of a comprehensive retirement plan. While there is a great deal of literature on the need for financial literacy and the importance of retirement planning, there is very little written about “what” specifically people really need to know to successfully plan for retirement.

Planning retirement is overwhelming

- Of the 1 in 3 adults in their 50's who have attempted to create a retirement plan, only 2 in 3 indicate having succeeded. (Lusardi & Mitchell, 2011)
- A survey of pre-retirees and retirees age 59-71 indicated that this “Silent Generation” has carefully saved for retirement, but have done an incomplete job of planning out their retirement income to insure that it will last as long as they do.
 - 1 in 3 have never tried to calculate the monthly income they will need in retirement.
 - 4 in 10 have not estimated how much return their investments will produce over the next 10 years.
 - Nearly half have not estimated for inflation.
(MetLife, 2005)
- Although they've carefully saved for retirement, where education comes up short is helping workers understand what it means to plan and prepare for their retirement lifetime (Willett, 2008)

What are pre-retirees being told – The Assumptions

- Savings at retirement: Advisors recommend a range of 10-20 times one's "current annual salary" in savings at retirement.
- Years in retirement: Estimates vary between the low 20's to 30-or-more years in retirement.
- Inflation: General pre-retirement advice estimates inflation at anywhere from 2.5-4%. Note, this varies both within and between education resources.
- Rate of return: Estimates for the average rate of return that can be expected from investments for retirement range from 3.6% to more than 9%. Note, the Canadian Securities Commission uses estimates of more than 4% rate of return as an indicator of financial illiteracy.
- Annual drawdown: The majority of advisors estimate necessary annual drawdown at between 60-80% of pre-retirement income.
- Expenses: Specific advice relating to expenses is sporadic.
- Medical: Advice, estimated as a lump sum, ranges from \$175,000 to more than \$250,000.
- Age to begin withdrawing social security: All advice professionals surveyed recommend delaying withdrawal as long as possible.

Sources for comparison: AARP, T. Rowe Price, Vanguard, Fidelity, Schwab, The Motley Fool, Prudential, U.S. GAO's Report to Senate Special Committee on Aging, RAND, Society of Actuaries, Center for Retirement Research, U.S. Department of Labor, newretirement.com, CNN Money, Retirement for Dummies.

What is generally missing from curricula

- Debt — the impact of debt on saving for retirement and living in retirement
- Longevity — how individuals incorporate an appropriate estimate of longevity and understand the risk of living longer
- Long term care — Should individuals self-insure? If so, when?
- Risk — understanding how "risk" should be reflected in a retirement portfolio

DISCUSSION STARTERS

- ▶ Can these complex topics be taught to the average investor in a way which predictably improves the odds of a successful retirement?
- ▶ Should there be a “standard” curriculum for retirement planning? Given the range of individual circumstances and literacy, how useful will that curriculum be?
- ▶ What else needs to be on the list?
- ▶ What role should ‘policy’ play in creating defaults and simplifying the retirement planning equation?
- ▶ Can (and should) a standard measurement be created to evaluate individuals’ financial literacy and proficiency with respect to retirement? Could this “scoring system” then be used to guide policy measures, tailor educational efforts, or establish a recommended threshold of competence?

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DISCUSSION SUMMARY

Key Discussion Points:

- The Consumer Financial Protection Bureau (CFPB) is ideally placed to create clear, research-supported recommendations to individuals and employers.
 - For employers, what balance of accommodations, defaults savings, etc. is most appropriate.
 - For individuals, a short guide to safely selecting a financial advisor.
- Social Security needs to be reliable, in whatever form it takes.
- People need to work longer. This issue remains to be addressed in full.
- Planning for retirement needs to be part of lifelong financial planning.

Conclusions:

- Increase confidence in the Social Security system even if only for a) the next 10 years, or b) for those already over 60. This could provide a degree of security and allow for more fruitful discussions around restructuring.
- Recommend a series of questions for individuals to ask financial professionals, which could then be reviewed and issued by the CFPB.
 - Tap financial professionals for recommendations about appropriate questions.
- Incorporate retirement planning into discussions of lifelong financial planning.

Open Questions:

- What do people need to know in order to be safe consumers of investment and other financial advice?
- What are the specific questions individuals should ask?
- What currently prevents people from working longer? If part of the problem is perception, how can we rephrase or redefine working longer to make it more appealing?
- What are the financial “milestones” that people should be reaching over the life course? Is it possible to identify these? If not, are there other logical rules of thumb?
- Are there options for creating an “augmented” form of Social Security for individuals? Why this might work or not work?



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