

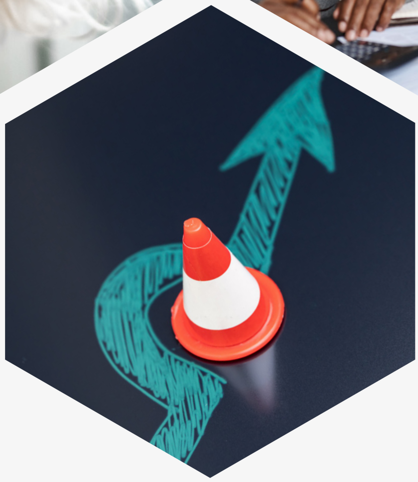



The Retirement Planning Disconnect: Deep Dive

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This report supplements our primary report *Disconnected: Reality vs. Perception in Retirement Planning*.

Our primary report explores potential interventions and messaging that would encourage and motivate pre-retirees and retirees to plan ahead regarding important retirement decisions. It identifies interventions and messaging, based upon our research, that could be used by practitioners and researchers to help people anticipate future challenges and be proactive to address these challenges.

Our Deep Dive report and our primary report summarize findings from these sources:

- In-depth interviews with 21 academic and industry experts
- A review of the research literature that is relevant to retirement decision-making
- A custom survey of 2,000 U.S retirees and pre-retirees from the ages of 50 to 74, conducted by Greenwald & Associates
- Interviews of 11 pre-retirees and 10 retirees conducted by Greenwald & Associates

Appendix A describes the project phases in more detail.

This Deep Dive report shares qualitative insights on the strategies discussed in our primary report, based on our interviews with experts and interviews with the pre-retirees and retirees. It also includes a few observations on insights from our survey of pre-retirees and retirees, based on breakdowns for a few demographic groups. It assumes familiarity with our primary report, which is best read before this report.

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Section I

Factors and Circumstances That Can Influence Retirement Planning

This section summarizes factors and circumstances that can influence how pre-retirees and retirees make important retirement planning decisions. It reflects views expressed in our interviews with academic and industry experts and insights from our literature review.

The challenge for practitioners is to assess the influences that may apply to their target audiences, to help design interventions and messaging that can apply to their audiences.

System 1 vs System 2 thinking

Nobel Laurette Daniel Kahneman's book *Thinking Fast and Slow*[1] describes two types of thinking:

- System 1 thinking: often automatic, quick responses, sometimes unconscious, or relying on shortcuts or beliefs.
- System 2 thinking: taking the time to rely on learning, analyzing options, and considering consequences.

When people are faced with complex or hard decisions, they may rely on System 1 thinking, particularly using shortcuts and relying on untested beliefs. Some shortcuts and beliefs might result in positive outcomes, while others might be detrimental. System 2 thinking can be difficult for many people, so they might procrastinate or avoid this effort.

The reality is that most people have the time to deploy System 2 thinking for most retirement decisions—provided they start their explorations well before the time when they need to make and implement their decisions. The challenge is to alert people to the potential pitfalls of System 1 thinking and encourage them to plan ahead and utilize System 2 thinking.

There are a few caveats about this categorization of the two types of thinking:

- With many situations, there is a continuum between the two extremes of System 1 and System 2 thinking. Often, people will deploy both types of thinking at the same time.
- It's unrealistic to expect that System 2 thinking will automatically produce decisions that are free of flaws and mistakes. Nevertheless, the hope is that encouraging informed and deliberate System 2 thinking *will often* produce better results.

Rational vs. irrational vs. human tendencies

The initial work on financial decision-making often assumed that people make rational decisions and ignored the impact of a host of biases and limitations that humans commonly have. The next iteration on financial decision-making, stemming from the initial work on behavioral economics, distinguished between "rational" and "irrational" thinking.

Instead of making the judgment of "rational vs. irrational decision-making," another perspective is to acknowledge and accept that people are human with various tendencies and emotions that can conflict. Using this insight, it's only human that people might make retirement decisions that can appear to be "irrational" from a pure financial perspective.[2]

For example, many people might:

- want to retire from a stressful, nonfulfilling, or unhealthy job as soon as possible,
- desire time to pursue leisure activities and dreams,
- want to start drawing on retirement savings or start Social Security as soon as possible,
- overlook unexpected living expenses such as major house repairs,
- have an emotional attachment to a home that could end up being too large or expensive to maintain in their later years, and/or
- postpone addressing or ignore the threat of becoming frail many years in the future.

In addition, it might be human that people can forget good advice that may have been given to them in the past, need to be reminded frequently, could have good intentions about spending time to make key decisions but get distracted by life, and would benefit from much encouragement.

It can be more constructive to acknowledge the reality and pervasiveness of these human tendencies and work with them, rather than dismissing them as "irrational."

Psychological and behavioral economics phenomenon that can influence retirement decision-making

There are a handful of phenomena identified by the research on psychology and behavioral economics that can apply to retirement decision-making,[3,4] as follows:

- **Affect heuristic:** People may base a decision on the emotional feelings of "badness" or "goodness" that are rapidly and automatically associated with a decision or solution.
- **Loss aversion:** People tend to prefer avoiding losses compared to pursuing gains.
- **Framing:** The manner that people use to describe a decision can influence how they think about the problem. Framing and loss aversion should be considered together; it's important to understand how people define the loss they want to avoid, which can influence their thinking.

- **Hyperbolic discounting:** People tend to want to receive a good sooner rather than later or underestimate the magnitude of expenses incurred and income received many years in the future.

- **Confirmation bias:** People tend to look for evidence that supports their beliefs and overlook evidence that may contradict their beliefs.

- **Stories:** People are more likely to remember, relate to, and be influenced by stories and experiences of close relatives and friends, compared to analysis and statistics.

- **Social norms:** People may want to conform with how others typically behave, or how people think they should behave in a specific situation.

- **Defaults and inertia:** People tend to remain with the current situation or default choice, without taking the time to explore their options.

- **Decision fatigue:** When faced with too many decisions or too many choices, people may tend to take short-cuts, procrastinate, or give up.

"Anticipated regret" can be one phenomenon that combines some of the above factors; people might anticipate future losses that they want to avoid, based on how they frame the decision or on the negative stories about the experiences of older relatives and friends.

One expert who we interviewed opined that in the short term, people tend to regret taking actions that are later perceived to be a mistake. Over the long term, people tend to regret actions they didn't take that could have made their life better.

Personal and circumstantial influences on retirement decisions

There can be many personal and circumstantial influences on various retirement decisions, as follows:

- **Life stage/family situation:** For example, pre-retirees or retirees who have caregiving demands due to adult children or parents who are dependent on them, or may have health or financial issues, have much different circumstances compared to people without these situations.

- **Personality traits:** Conscientiousness, one of the "big five" personality traits, is most applicable to making and implementing decisions. Other positive traits can be patience and willpower.

- **Advice:** Relying on experts can be an appropriate "short cut" to making critical decisions, provided pre-retirees and retirees take the time to find a qualified advisor who has their best interests at heart. Too often an "expert" might appear to be confident about their recommendations, but they may lack the necessary expertise to make effective recommendations, or they might be conflicted by the way they are paid.

- **Financial media:** There is a plethora of books and articles about the various retirement decisions, often with conflicting information and recommendations. There can be disagreement in the financial media regarding potential solutions, causing confusion and uncertainty among laypeople. As a result, the media can be part of the problem and part of the solution.

- **Influences in the workplace:** Some employers might encourage their employees to focus on important retirement planning decisions by offering retirement planning workshops or financial wellness programs, or by providing other materials that raise awareness of the issues.

In addition, some employers might send intended or unintended messages about the "right" time to retire through the eligibility conditions for certain retirement benefits.

- **Uncertainty of outcomes:** Whether a particular decision turns out to be the "right" solution can depend on many factors that are not known at the time the decision must be made. Just to list a few uncertainties, pre-retirees and retirees don't know how long they and their spouse/partner will live or be healthy, the level of inflation over their lifetime, and future performance in stock, bond, and real estate markets. Nevertheless, decisions must be made in many cases, such as when to retire and when to start Social Security benefits. Often, avoiding or postponing a decision, such as where to live in retirement, is tantamount to making a decision.

- **Beliefs about the value of planning:** Some people may discount the value of planning, since "life is uncertain, you never know what can happen." However, most retirement decisions are subject to varying degrees of uncertainty; many experts who we interviewed preferred having a plan to address this uncertainty compared to having no plan.

- **Existing beliefs:** Many people may have existing beliefs about specific retirement decisions, tested or untested. In this case, "confirmation bias" can be a problem, when people seek out information that confirms their beliefs and overlook evidence that may conflict with their beliefs.

- **Opinions of influential people:** Spouses, family, friends, and work colleagues may have their beliefs that are also subject to all the influences listed here.

- **Cultural norms:** Some cultures might emphasize family support, such as Asian and Latino families, compared to cultures that might emphasize independence. However, many families, regardless of ethnicity, tend to lend support to family members when it's really needed. As a result, there can be advantages of explicitly stated expectations over implicit assumptions.

- **Socioeconomic status:** People who are financially stressed might be focused on day-to-day survival and can have difficulty planning ahead.

- **Education level and financial literacy:** People with higher levels of education or financial literacy may be more able to analyze and understand the choices they face.

- **Trust:** There can be varying degrees of trust in financial institutions, employers, advisors, and "the system." Because some of the decisions require skills beyond the capability of many pre-retirees and retirees, they often trust an expert or financial institution to provide them guidance. While this is can be a natural solution to this situation, it's advisable that pre-retirees and retirees don't take shortcuts to decide the right person or institution to trust, and instead spend time to investigate who they can trust (i.e. use System 2 thinking).

- **Attaining a milestone age:** Attaining a milestone age, such as 50, 60, 62, or 65 can serve as a reminder it might be time to start planning for retirement.

- **Experiencing a significant life event:** An important life event, such as a health shock or disability, death of a close family member or friend, divorce, layoff, reorganization, or job difficulties can also trigger a desire to start planning.

Retirement planning is a process that can evolve over time

Retirement decision-making is a process, and people tend to adjust their views as they get closer to retirement. For example, 10 years from retirement, pre-retirees may focus just on progress toward general savings goals. When they are within five years of retirement, they may focus more on the details of where they might live and what they might do with their time.

When people are one or two years from retirement, they might have a better idea of their spending in retirement. Ideally, they would estimate their retirement income from all sources, and begin considering the basic tradeoff between working longer and reducing spending that they might need to accept, given their circumstances.

Finally, many recent retirees make adjustments in their spending during the five years following retirement, as they understand and accept the reality of living in retirement.

Some observers note that it can be difficult for pre-retirees to predict the reality of retirement, using this statement as an analogy: “Dating doesn’t prepare you for the reality of marriage.”

The following counterpoint to that analogy can also apply to retirement planning: “You can learn insightful things about a potential spouse when you’re dating. And it makes sense for couples to have explicit conversations about important expectations before they’re married.”

Pre-retirees might feel overwhelmed about all the decisions that they face. However, they don’t need to make these decisions all at once. It might help them feel less anxious about the planning process if they plan their planning. Sort out the importance and priority of various decisions, and then identify the decisions that might need to be made sooner and the decisions that can be made later.

The challenge for practitioners is to sort through all the possible influences and circumstances that their target audience might have. Advisors who have a one-on-one relationship with their clients have a much better opportunity to tailor the messaging compared to practitioners who are working in a group setting.

Red flags that interventions may be appropriate

Based on the interviews with experts and the interviews with pre-retirees and retirees, here are common statements made by pre-retirees and retirees that indicate interventions may be appropriate.

<u>Misconceptions about potential length of retirement</u>

- “I don’t need to plan for a long retirement, most of my older relatives didn’t live beyond age …”
- “Retire as early as you can, you never know when you might pass away.”

Most people underestimate how long they could live, and they may be unaware of recent improvements in life expectancies due public health and medical advances. For both the above situations, it can be enlightening to estimate life expectancy using a longevity calculator that takes into consideration lifestyle and family history.

Unrealistic expectations or retirement plan

"I will never retire." The reality is that most people will eventually reach an age when they no longer want to work or they are unable to work. And research shows that many people retire earlier than they had planned.[5,6]

"I'll never get a cent from Social Security." There's a very high probability that the majority of retirees will receive most, if not all, of their Social Security benefits. For most low and middle-income retirees, it's critical to consider Social Security benefits in their retirement plan, since Social Security benefits can comprise three-quarters or more of their total retirement income.[7]

- "I don't know when I plan to retire."
- "I plan to retire when my savings reach (insert a target savings amount)."
- "I don't know how I will use my savings in retirement."
- "I plan to use my retirement savings as an emergency fund."

The last four statements indicate the need to develop a realistic plan for the age to retire and to estimate if it's realistic to expect that their lifetime retirement income from all sources can pay for their living expenses throughout retirement.

Potentially being uninformed about how to select someone to trust

- "My advisor is a good guy – he helped my father." It's preferable to ask about a potential advisor's credentials and expertise, and whether they are paid in a manner that does not result in conflicts of interest.
- "My advisor made me a lot of money last year." Most people who invested in the stock market in recent years have experienced historically high returns regardless of whether they were working with an advisor.
- "I don't know how my advisor is paid." It's advisable to know how much advisors are being paid, whether they are adding value in relationship to the amounts paid, and whether the method of payment creates financial conflicts.
- "My buddy/work colleague/barber/hair stylist told me …". For the critical retirement decisions, it's best to work with a qualified advisor or financial institution who are paid in a manner to have your best interests at heart.

Unrealistic plans to address the threat of long-term care

- "I'll deal with that when it happens."
- "It's too depressing to think about becoming frail."
- "Shoot me before you put me in a nursing home."

It's natural for people to deny the possibility that they might become frail in their later years. It might take repeated messaging and interventions over a period of years to influence them to focus on developing a plan.

Another warning sign can be a large, multi-story home in the suburbs that requires driving for most or all daily needs. Eventually such a home may not work for seniors who can no longer maintain a large house, climb stairs, or drive a car. A common challenge is that some people might wait too long to right-size or age-proof their house; at that time, their options might be limited.

Section II

Insights on a General Framework for Designing Interventions

This section provides insights that supplement Section III of our primary report *The Retirement Planning Disconnect*. Our interviews with academic and industry experts and our literature review suggest the following three-phase framework to design interventions and messaging to help pre-retirees and retirees engage with the critical decisions that they face.

> **Phase 1:** Engage and Educate. Draw attention to the importance of making the decision and motivate them to spend time to learn more about their options.
>
> **Phase 2:** Guide. Provide a step-by-step approach to address the various decisions they need to make.
>
> **Phase 3:** Enable. Address, mitigate, or remove any barriers to making each decision.

Throughout all these steps, provide plenty of encouragement to persist and not give up or procrastinate.

The above phases are similar to the first three steps of the four-step MORE Design, a model that synthesizes various psychological and behavioral economics phenomenon to help guide people of all ages to better outcomes:

1. **M**otivate: Make people aware of the need for a decision and motivate them to make the decision.
2. **O**ptimize: Assist and encourage people to gather facts, learn strategies, and study their options
3. **R**ealize: Support people in making and implementing a decision
4. **E**valuate: Help monitor progress and make adjustments if necessary.

The suggestions in this report build on the behavioral phenomena that are described in the reports for the MORE Design.[3,4]

Focus on Phase 1: Engage and Educate

Messaging that focuses on motivating pre-retirees to spend time planning for retirement would ideally be emotionally engaging. Help people envision their life in retirement—build excitement about the lives they want for themselves, their spouses/partners, family, and friends.

It's also advisable to ease pre-retirees and retirees into the various implementation decisions they need to make. Starting with tough decisions can be discouraging. Instead, start with the "low-hanging fruit." Give them relatively easy or fun tasks that can create some initial success, then build on that success with the harder tasks.

One possible intervention that can accomplish both these goals is to ask a series of questions that inspires pre-retirees to think about their retirement years. For example:

- What would a successful retirement look like for you?
- What's on your bucket list?
- What would a good "average day" look like for you (not doing items on your bucket list)?
- What kind of retiree/senior/elder/grandparent do you want to be?
- Who do you want to spend time with during your retirement?
- What would be the ideal community for your retirement years?
- What type of house could best meet your needs?

Answering these questions can help pre-retirees and retirees focus on the financial and social resources that would support the life that they want.

Here are other possible messaging and interventions to help pre-retirees and retirees take the first step to think about their life in retirement:

- Ask them to reflect on the stories and examples of older relatives and friends who are retired. Who appears to be thriving in retirement, and who is not? How does their example influence your thinking?
- Watch movies or read books that portray aging and life in retirement. An internet search can provide many suggestions.

Focus on Phase 2: Guide

The list of important retirement planning decisions can be overwhelming to many people. As a result, it's important to organize the various decisions and their priorities, and to give people a step-by-step guide. Give pre-retirees and retirees achievable milestones, which is particularly important for tasks that are hard or for tasks they have not completed before.

After Phase 1, a logical next step (and potentially harder step) could be to ask them to estimate their regular living expenses in retirement, given the goals they have expressed through the questions in Phase 1.

Developing a retirement budget could be the first step in a robust checklist that could lead pre-retirees and recent retirees through the decisions that, ideally, they would make as they transition into retirement.

Once pre-retirees and retirees have a better idea of the life they want in retirement and the resources needed to support that life, they have a goal for the next harder step, which is to evaluate whether their existing resources are sufficient to support the life they want. It can feel like a natural progression to link these steps in sequence. Completing these steps can help pre-retirees and retirees navigate the tradeoff between working longer and reducing spending, as described in Section I of D*isconnected: Reality vs. Perception in Retirement Planning.*

Focus on Phase 3: Enable

Practitioners may want to assess the most compelling barriers that apply to the people they are trying to help. These barriers are discussed in Section II of our primary report *Disconnected: Reality vs. Perception in Retirement Planning*. Such an assessment can help practitioners design messaging to counter any misconceptions, to suggest that people examine whether the barriers really apply to them, and to encourage people to explore how to address these barriers instead of ignoring them.

It can take substantial time and effort to make the various decisions that pre-retirees and retirees face. Periodic polite reminders and encouragement can help them keep on track. It also helps to congratulate them as they complete various steps, to remind them of their success and to inspire them to build on their progress. This can build their confidence, which can be self-fulfilling.

Section III

Insights on Interventions and Messaging

Based on our interviews with academic and industry experts, this section provides insights that supplement Section IV of our primary report *Disconnected: Reality vs. Perception in Retirement Planning*.

Carefully connect with emotions

Messaging and interventions can be most effective if they help the pre-retiree and retiree connect emotionally with the life they want in retirement. Start by helping people envision the reality of their life in retirement, for the initial periods of retirement and throughout their lives.

Many people start by envisioning the "vacation" aspects of retirement— the picture of the happy couple walking hand-in-hand on the beach at sunset can be an over-used cliché. While it may be strategic to get pre-retirees engaged with this type of imaging, the reality is that retirees won't be on vacation all the time. Practitioners can help pre-retirees and retirees move beyond the vacation imaging and envision the practicalities of their day-to-day life in retirement.

Another theme for messaging can be balance. While many people say they prefer positive messaging, loss aversion suggests that many people may also pay attention to caution-based messaging. But using too much fear can be paralyzing and off-putting. Consider using a balance of encouragement along with reminding people of the potential consequences of inaction.

For example:

- "Don't run out of money!" This is a common, gut-level concern with many retirees, but it can feel threatening and overwhelming.
- More empowering and positive: "Take steps to make sure you'll always have enough money."
- Combine it with emotional messaging: "Taking action steps now can give you peace of mind that you'll always have enough money."
- Or consider posing an engaging question: "Have you considered how you'll attain the peace of mind that you'll always have enough money?"

The last two ideas reframe the message to reduce a potentially paralyzing threat.

It can be powerful to use stories of people similar to the target audience and who are wrestling with the same decisions. For example:

- "A tale of two widows…" could compare positive and negative outcomes resulting from significantly different decisions made by couples or their husbands.

- Start the story with just the key points. Don't give too much detail at first. Once engaged, people might ask for more details.
- Partitioners could then ask "why do you think things turned out so differently for the two widows?"

Use numbers and statistics sparingly and strategically to reinforce the main messages and stories.

Keep in mind that emails and print materials are often not as effective as messaging delivered in-person, virtually, or through video. Consider using emails and print materials for background information, for those people who want more detail.

Timing can be important

Certain events can trigger many people to focus more on retirement planning. Practitioners could take advantage of these events to bring retirement issues to the attention of pre-retirees and retirees. Examples include:

- Attaining a milestone age. Experts who we interviewed generally agreed it would be best to start focusing on important retirement decisions no later than age 60. However, it's still not too late to focus by the first eligibility for Social Security benefits (age 62), Medicare eligibility (age 65), Social Security Full Retirement Age (currently age 67), or another milestone age such as eligibility for retirement under an employer's retirement plan.
- When the youngest child leaves the house or becomes independent. At this time, people have more time on their hands, and they may have more disposable income as well. And they could be at the stage of life where it makes sense to start focusing on retirement decisions.
- Change in life circumstances. A divorce, health shock, or death in the family can be a trigger that causes people to focus on retirement issues.
- External event. Events such as layoffs, reorganization, or stock market crash can trigger the concern "am I ok?" People might be more receptive to spending time to plan for retirement. Addressing concerns can help people attain peace of mind.

Another idea is a "fresh start" approach that commits to a future action. "On my next birthday I will begin exploring my retirement resources." Even better is to commit to another person that you'll take that action, such as a spouse or close friend or relative.

It's important to acknowledge that such "just-in-time" interventions might be too late. When pre-retirees reach their 60s, there generally isn't enough time remaining to save enough money to make a significant difference in their financial security. At that age, it's important to shift the focus to the best ways to utilize the various resources they have already accumulated.

Consider starting with reflections and self-affirmation statements

Practitioners can help motivate people make potentially difficult changes in their lives if practitioners start with helping people reflect on their strengths and characteristics. For example, before discussing specific decisions and strategies, practitioners could ask questions such as:

- When in your life have you needed to plan ahead to reach an important goal?
- Have you ever had experiences where you needed to make significant changes in your life? How did that go? Could you have done better? Anybody who has been married or had children might have had life experience to reflect on these questions.
- Do you consider yourself someone who anticipates future challenges and takes steps to address them?
- Practitioners could build on the reflection by helping people develop positive affirmation statements about themselves. Examples include "I am a responsible planner" or "I take responsibility for my financial future." Research suggests that making such positive statements can increase the likelihood that people will carry out the tasks needed to live up to their affirmations.[8]

Gain insights from design thinking

One common situation is where pre-retirees think that retirement will make their lives better and they really want to retire. But realistically, they might not have sufficient resources to support the life they want in retirement.

Design thinking[9] would suggest that retirement is just one solution for attaining an important personal goal. Are there other methods for achieving that goal?

In this situation, a practitioner could ask "Specifically how would retirement make your life better?" If a pre-retiree answered that they would have more time to pursue their interests or travel, then explore if there are other, more realistic strategies to achieve that goal, such as finding part-time employment.

Consider encouraging open mindsets

With some retirement decisions, significant lifestyle or behavioral changes may be necessary. In this case, it helps to have an open mind set, where people believe their success is based on their hard work, learning, persistence, and help from others.[10] They view failure as an opportunity to learn, instead of a judgement on their person. On the other hand, people with a fixed mind set might assume their basic abilities are fixed and their situation cannot be changed. They may be resistant to making changes or taking risks.

Of course, people don't fail neatly into one of these two categories. In any case, it can help to ask individuals to reflect on their lives about the times when they successfully made significant changes, or to remember stories of influential relatives or friends who successfully changed their lives.

Finally, acknowledge that it's very hard to make the absolute perfect decision every time, and often the perfect solution doesn't exist. Instead, simply encourage people to do the best they can.

Be open to interdependent relationships

Individualism—a belief that you alone are responsible for your success—can be an undercurrent in Western societies and particularly in the United States.[11] However, as people age, they become increasingly reliant on other people; it's natural to be more interdependent with others. This can include experts who will help you make complex decisions, financial institutions to implement your financial strategies, and family, friends and neighbors who may help when you become frail. And some family, friends, and neighbors may increasingly become reliant on you.

It can help to accept that you'll need help, and consciously build a "convoy of support" of people who can help provide both instrumental and emotional support.[12] And you may also be an important part of another person's convoy of support. Some of the interventions and messaging described in this report can support the notion of interdependence.

Ideas for making difficult decisions

It can be natural that some people might be informed about the hard decisions that they need to make, but they need a boost to actually reach a decision. Here are a few ideas from our expert interviews:

- Set aside the deliberations and take a walk in nature.
- Pay attention to strong feelings you might have about a specific decision, or your dreams if they relate to the decision. This doesn't mean necessarily that you base your decisions your gut feelings or your dreams, but rather that you acknowledge and explore those feelings.
- Talk it over with people you trust.
- What would you advise a close friend or relative who is facing the same situation and decision? This can help gain perspective by putting some distance between yourself and the decision.

Start with simple strategies and solutions

There can be many complex solutions to some retirement decisions, such as deploying savings to generate retirement income/cashflow (technically known as "decumulation," a potentially intimidating word). It can seem overwhelming and confusing to many people to describe all the possible strategies. Instead, consider starting with a baseline strategy along with the pros and cons of that strategy. Then, consider if more sophisticated strategies would be appropriate and could make a significant difference in their lives.

For example, with respect to decumulation, the *Spend Safely in Retirement Strategy* is a straightforward approach identified by research that can be easily understood and implemented in most IRAs or 401(k) plans.[13]

Similarly, with many retirement decisions, it can be possible to devise a "starting point" solution for the purposes of discussion, and then explore whether variations could be appropriate.

Thought-provoking statements or questions can help people focus

Based on our research, here's a list of thought-provoking statements or questions that practitioners can try to help people focus on some of the key decisions they face.

- Yes, life is uncertain. But having a plan to address these uncertainties is better than having no plan at all.
- When would you like to retire? How will you decide when to retire?
- Do you know what your living expenses might be in retirement? Have you developed a budget?
- Do you have a plan for developing sources of retirement income that can cover your living expenses?
- Will you be able to live in your current house if you or your spouse become frail later in life?
- Do you have a plan if you reach a stage in your life when you're no longer able to manage your day-to-day finances?
- Yes, there is no perfect strategy for addressing the risk of needing expensive long-term care. But having a plan is better than having no plan.

Ideally, practitioners would pose these questions after asking the general questions listed in Section II of this report.

Section IV

Considerations for Specific Decisions

This section applies the insights and principles described in previous sections to a few important decisions facing pre-retirees and retirees. It reflects views of the academic and industry experts who we interviewed.

The three-phase framework for interventions described in Section II of this report could be applied to the situations described below. In particular, it might help to engage pre-retirees and retirees with a specific focus on Phase 1: Engage and Educate.

When to retire

This decision is subject to many different influences that involve tradeoffs between financial considerations, lifestyle preferences, and the individual's circumstances and resources. Pre-retirees often want to retire for various and compelling positive reasons, and many retirees report they are happy in retirement. However, some pre-retirees may feel "pushed" into retirement. As a result of these various situations, many people may want to retire or think they need to retire as soon as they believe they can afford it. On the other hand, there are also many people who derive satisfaction from their work and wish to continue working.

"Retirement" can have a positive affect as described in Section I of this report, even though people may not know exactly how retirement will make their life better. If pre-retirees can become aware of the practical advantages and challenges of retirement, they can better assess if they have the financial resources to support the life they want.

Here are common, important influences on the decision when to retire:

- Postponing retirement generally increases retirement income substantially for each year of delay, when considering Social Security benefits and retirement income generated from savings.[13] The calculations that demonstrate this phenomenon are beyond the expertise of most people. It would help significantly if an expert or retirement planning system could prepare estimates of their total retirement income from all sources for various possible retirement ages. This would inform pre-retirees of the financial consequences of their decision when to retire.

- Most pre-retirees have not saved enough money to retire and realize the same amount of spendable income, after taxes, that they had during their working years.[14] As a result, they may need to reduce their spending in retirement. In this case, it helps to prepare a budget for living expenses in retirement and compare this budget to their expected retirement income from all sources to determine if retirement is feasible.

- The above two points may be opportunities to apply design thinking, as discussed in Section III of this report. Can pre-retirees still enjoy the advantages they expect from retiring if they need to work part time for a period or reduce their spending?

- Many people have trouble grasping the potential length of their retirement or how their lives might change throughout a long retirement, both of which can have significant planning implications. One research report demonstrates that when people are asked when they might die, they generally report shorter expected lives compared to people who are asked how long they might live.

  Even if people accurately estimate their life expectancy, it's a mistake to plan for a retirement equal to their life expectancy. A life expectancy calculation is just an estimated average lifespan, and actual lifespans can vary significantly from the life expectancies. Therefore, it's best to plan for financial security no matter how long you'll live.

- Many people want to delay retirement until age 65, when they are eligible for Medicare. Premiums for medical insurance can be quite expensive before Medicare eligibility. For people who want to retire before age 65, possible solutions include working part time at a job with medical insurance or buying COBRA coverage for people who are within 18 months of Medicare eligibility.

When to claim Social Security

The current Social Security program provides significant financial incentives for most people to delay the start of their benefits, but no later than age 70. However, most Social Security beneficiaries start their benefits well before age 70; many retirees start their benefits at age 62, the earliest possible age with the smallest amount of monthly benefit.

Here are the most common reasons that people start their benefits well before the optimal age:

- Lack of awareness of the financial incentives to delay benefit commencement.

- Retirees may need the income, often because they have retired earlier than they planned.

- They feel they are entitled to benefits because they have paid into the system for many years.

- They may be concerned that Social Security is going bankrupt, so they want to receive as much money as possible before that time.

A common problem can happen when people claim Social Security while they are still working to receive more money as soon as possible. They may become accustomed to the amount of combined income without planning ahead for the day when they are no longer able to earn money from working. When that day inevitably arrives, they must suddenly adjust to significantly reduced income, often at an age when they are less able to make such adjustments.

It's important to recognize that perfection isn't necessary—any delay in starting benefits is often beneficial, even if people don't delay all the way until age 70. It can also help to hear the stories of retirees who started Social Security as early as possible and later regret it, as well as stories of people who delayed benefits and are glad they did. It can also help to read several articles from the many respected experts who all recommend delaying benefits.

Medical insurance and Medicare decisions

There are many misperceptions about Medicare's features. Because Medicare is called "medical insurance," people often assume erroneously that it's similar to the health insurance they received from their employer during their working years. However, Medicare doesn't cover dental, vision, or hearing benefits, which are common benefits in employer-sponsored health care plans. Also, Medicare has deductibles and co-payments that are higher than most employers' health care plans. In addition, Medicare doesn't cover most long-term care expenses.

Once again, stories of retirees who overlooked the importance of Medicare decisions or retirees who spent time exploring their options can influence pre-retirees and retirees to spend the time it takes to make informed decisions. Once they are motivated, there are many published guides that walk people through the necessary steps. Practitioners can direct pre-retirees and retirees to the many helpful descriptions of Medicare's benefits and features.

Long-term care

Addressing the threat of high expenses for long-term care in the later years is one of the most complex and problematic retirement decisions. People often don't want to think about events that could happen many years in the future, or they could be in denial of the possible risks. And in the views of the experts we interviewed, there are no perfect or even very good solutions. Nevertheless, most experts agree that adopting an imperfect strategy is better than ignoring the risk of high expenses due to long-term care.

Many current pre-retirees and recent retirees have experienced the threat and costs of long-term care with their parents, or they have heard the stories about relatives and friends. It's a good opportunity to reflect on how these stories may influence their behavior. And it might take repeated discussions about addressing this threat before people might accept the responsibility to take action.

When people take the initiative to address the risk of needing long-term care in their later years, they often focus exclusively on adopting financial solutions to be able to pay for care. While financial strategies are certainly very helpful, it's equally important to take steps to protect against financial losses due to diminished capacity,[15] and to focus on building a convoy of support from family, friends, and professional help.

Where to live in retirement

For many pre-retirees and retirees, the default decision is to continue living in the home and community where they currently live. Inertia and defaults are powerful behavioral economics phenomenon, as discussed in Section I of this report. And many people have strong emotional connections to their home. As a result, many retirees wait until they are too feeble or don't have the resources to make a move. At that time, their options may be limited, and they may need to rely on family and friends to help them.

Nevertheless, many retirees reach an age when they can no longer live in their current home. Common problems include houses that are too big or too expensive to maintain, stairs that can no longer be climbed, and isolation due to the reduced ability to drive. If pre-retirees and retirees need to reduce their living expenses to stabilize their finances, housing is often their largest living expense and represents a viable target.

To help pre-retirees and recent retirees focus on whether moving could improve their long-term situation, it can help to share stories of similar retirees who waited too long to move or who were proactive in planning a move. Another possible technique is to encourage them to connect emotionally with their future self and imagine if a day will come when they can no longer maintain their current home.

Using home equity to help finance retirement

If pre-retirees and retirees do not have sufficient financial savings and resources to support the life they want in retirement, then one potential solution is to use their home equity to help improve their financial security. Indeed, 70% of our survey respondents report owning a home, and the majority of these people report more wealth in their home equity compared to investable assets. For example, the median value of home equity reported by our survey participants was $198,000, compared to the median value of $128,000 for investable assets.

Another study reports that 60% of households headed by someone age 65 to 69 have equal or more home equity compared to their financial wealth.[16]

Possible strategies to use home equity to help improve retirement finances include:

- Sell the home, realize a net capital gain, and invest the proceeds to generate cashflow to help meet living expenses.

- Take out a reverse mortgage to generate investable wealth, a line of credit, or a stream of regular payments.

- Hold home equity in reserve for the time when they might need to tap it for financing long-term care.

Often, it's assumed that retirees don't want to deploy their home equity because they want to leave their home as a legacy for their adult children or grandchildren. However, less than one-fourth of survey respondents reported it's important to leave such a legacy.

Anecdotal experience reported by many experts and financial planners indicates that most adult children want their retired parents to be financially secure, and it's ok for their parents to use their home equity if necessary. Such a strategy can also postpone the day when the retired parent might need financial help from their adult children.

The three-phase framework for designing interventions can be helpful in this situation:

- Phase 1: Draw attention to the possible need to deploy home equity to improve retirement finances.

- Phase 2: Recognize that deploying home equity can be a complex decision that is beyond the capability of many pre-retirees and retirees. Practitioners can help estimate the potential improvement by deploying home equity and provide a step-by-step approach for implementation.

- Phase 3: Remove any barriers or misconceptions that may be prevalent, particularly regarding reverse mortgages or capital gains taxes.

Section V

Insights on Vulnerable Demographic Groups

Our survey data contains breakdowns of answers to the survey questions by various demographic subgroups of respondents. There were insightful similarities and significant differences in their answers.

This section illustrates the usefulness of such analyses by analyzing the following three subgroups of survey respondents—people who report they are:

1. financially fragile,
2. able to get by, and
3. comfortable financially.

Their responses indicate the obvious: People who report they are comfortable generally have more financial resources than the first two groups. For example, respondents who report:

- Financial assets under $100,000 represent 82% of the fragile subgroup, 61% of able to get by, and 21% of comfortable.

- Existence of a traditional pension represent 34% of fragile, 47% of able to get by, and 58% of comfortable.

- Owning a home represent 42% of fragile, 65% of able to get by, and 87% of comfortable.

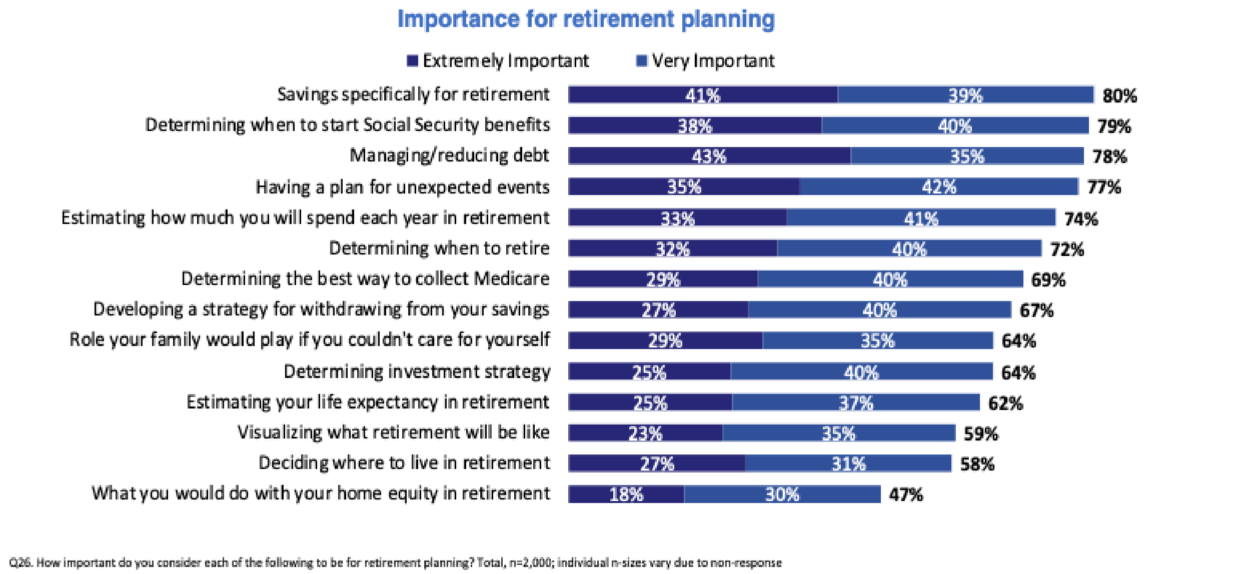
People in the first two groups are often consumed with daily financial survival, and they may not have the capacity to focus on long-term retirement planning. The differences in existing financial resources between these three groups help explain their differences in beliefs and their ability to plan ahead.

The discussion that follows explores the similarities and differences in circumstances, influences, and attitudes between the above three subgroups. It demonstrates the potential for this type of subgroup analysis. A robust analysis of similarities and differences for several subgroups is beyond the scope of this project.

Rated importance of retirement

Our survey asked respondents to rate the importance of 14 retirement decisions. Figure 1 (below) shows these decisions and the importance rating assigned by all respondents. Appendix C lists these decisions.

Figure 1. More than 75% say saving for retirement, Social Security timing, managing debt, and having a plan for unexpected events are highly important for retirement planning



A comparison of the answers from the three groups listed previously shows few significant differences in their answers.

For example, when asked to rate the importance of "determining when to start Social Security benefits," the three groups reported this decision was extremely important or very important by 81%, 76%, and 79%, respectively, compared to 79% for all groups combined.

When asked to rate the importance of "determining when to retire," the three groups reported this decision was extremely important or very important by 71%, 69%, and 74%, respectively, compared to 72% for all groups combined.

The rated importance for most of the other 14 decisions were also grouped closely among the three groups. The decision with the widest range of rated importance was "determining an investment strategy." This decision was rated as extremely important or very important by 73% of the financially comfortable group, compared to ratings of 53% and 59% for the first two groups, respectively. This difference makes sense in light given that people who report being comfortable are more likely to have significant assets to invest.

Rated amount of effort spent on retirement decisions

Survey respondents were asked about how much effort they made for each of the 14 decisions shown in Figure 1 and in Appendix C.

People who reported they are comfortable financially were more likely than the first two groups to report they spent "a great deal" or "to some extent" of effort on each of the decisions.

For example, when asked how much effort they spent on determining when to retire, 80% of the financially comfortable group reported they spent "a great deal" or "to some extent" of effort on this decision, compared to 58% and 67% for the first two groups, respectively.

When asked how much effort they spent on determining when to start Social Security benefits, 79% of the financially comfortable group reported they spent "a great deal" or "to some extent" of effort on this decision, compared to 60% and 70% for the first two groups, respectively.

Similar differences were reported for the amount of effort devoted to the remaining retirement decisions.

It's possible that the financially comfortable group is more likely to spend more time and effort on various retirement decisions than the first two groups because the first two groups do not have the capacity to plan ahead due to the stresses of daily living, and they don't receive as much encouragement from various sources to plan for their retirement.

Rated effectiveness of nine messages to encourage retirement planning

Survey respondents were asked to rate the effectiveness of nine possible messages that could encourage them to plan for retirement, listed in Appendix D and shown in Figure 4 of our primary report *Disconnected: Reality vs. Perception in Retirement Planning.*

The effectiveness of these messages was rated similarly by the three groups described previously. For example, survey respondents were asked the effectiveness of the statement "planning for retirement can give you more control of your life in retirement." The prevalence of the three groups rating the effectiveness as "extremely effective" or "very effective" was 77%, 72%, and 77%, respectively, compared to 76% for all groups combined.

Survey respondents were asked the effectiveness of the statement "planning now can give you more peace of mind in retirement." The prevalence of the three groups rating the effectiveness as "extremely effective" or "very effective" was 76%, 71%, and 78%, respectively, compared to 75% for all groups combined.

Similar results were reported for effectiveness of the remaining possible messages.

Key differences between the three subgroups

There were key differences in perspectives and beliefs between the three subgroups, as follows:

- Survey respondents were asked if they agree with the statement "I live my life one stage at a time and only plan for the present." Only 29% of the financially comfortable respondents strongly agreed or somewhat agreed with the statement, compared to 63% and 51% of the first two groups, respectively.

- Respondents were asked if they agree with the statement "I do not have enough retirement savings to make it worth my time to plan." Only 22% of the comfortable group agreed, compared to 70% of the fragile group and 52% of the able to get by group. This belief overlooks the importance of the critical decisions that don't involve savings, such when to retire and when to claim Social Security.

- Respondents were asked if they agree with the statement "I should have done more planning than I have done so far." 54% of the financially comfortable respondents strongly agreed or somewhat agreed with the statement, compared to 92% and 88% of the first two groups, respectively.

- Financially comfortable respondents can have a clearer view of goals than the first two groups. For example, when asked how they will decide when to retire, only 20% of the comfortable group don't have a plan for this decision, compared to 49% for the fragile group and 31% of the able to get by group.

- When asked if taking the survey caused them to think differently about their retirement planning, "yes" answers were 80% of the fragile group, 66% of the able to get by group, and 48% of the comfortable group.

The circumstances of people who report they are comfortable indicate they have more supportive life circumstances and more robust resources than the first two groups:

- 78% of the comfortable group are married or partnered, compared to 37% of the fragile subgroup and 56% of able to get by.

- 71% of the fragile group make financial decisions by themselves, compared to 58% of the able to get by group and 44% of the comfortable group.

- 49% of the comfortable group currently work with an advisor, broker, or insurance agent to help them make decisions, compared to 14% of the fragile group and 20% of the able to get by group.

- The financially comfortable group had the highest educational attainment, with 51% attaining a 4-year degree or graduate or professional degree. These percentages were 21% and 31% for the first two groups, respectively.

- When asked to rate their health, 60% of the financially comfortable group rated their health as "excellent" or "very good," compared to 32% and 38% for the first two groups, respectively.

These results imply a telling overall pattern: People who report they are financially comfortable are more likely than the first two groups to have life circumstances and resources that enable them to plan ahead, to put more effort into planning, and are less likely to focus exclusively on the present.

Causation linking these characteristics to outcomes can flow in either direction. For example:

- People who have more income and wealth than others are more likely to have the means and ability to plan ahead, while people who plan ahead are more likely to have more income and wealth.

- People who are more comfortable financially are more likely to have good health, while people with good health are more likely to be comfortable financially.

These results can help identify the groups who might need the most attention and help with planning ahead:

- people with lower incomes or low savings amounts,
- lower educational attainment,
- people who report they have poor health,
- single, divorced, or widowed people, and
- people who report they are financially fragile or able to get by.

These groups need the same type of help and are receptive to the same interventions and messages as people who report they are comfortable. It's only natural that the vulnerable groups need more attention, more encouragement, and more step-by-step guidance than they are currently receiving. They might also benefit from guidance to address their immediately pressing financial challenges, which can then free some capacity to address their long-term retirement planning.

The survey data can enable similar analyses and observations for subgroup categorizations including gender, marital status, race/ethnicity, educational attainment, reported health status, reported satisfaction with retirement planning, and household income.

Section VI

Concluding Observations

Throughout the project, we repeatedly heard that interventions and messaging would be most effective if they are tailored to the circumstances and beliefs of various target audiences. The reports and data created as part of this project can be a good source for understanding the similarities and differences between different groups. We encourage researchers to use our reports and data to conduct future research that can help improve retirement decisions.

Appendix A: Project Methods and Phases

The project consisted of these phases and steps:

Foundational Phase

Understand the research that provides insights into the factors that can influence retirement decision-making, as follows:

- Interviews with 21 academic and financial industry experts in the fields of retirement planning, decision-making, behavioral finance, psychology, sociology, and journalism.
- A literature search of research that provided insights into the interventions and messaging that can help improve retirement decision-making. A separate report, titled *Leveraging Psychological Science to Motivate Retirement Planning: A Literature Review*, includes details of this literature search.

These two steps helped inform the Assessment Phase.

Assessment Phase

This phase assessed the circumstances and perspectives of the target audience, as follows:

- Greenwald & Associates, a third-party market research firm, interviewed 11 pre-retirees and 10 recent retirees to gain qualitative insights into their thinking and behaviors.
- Greenwald & Associates also surveyed 2,000 pre-retirees and retirees to understand their circumstances, attitudes, and barriers to advanced planning, and to assess their receptivity to various messages and interventions.

Greenwald summarized its survey findings in a separate report titled *The Retirement Planning Disconnect.*

Appendix B: Reference Citations

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14. *Seeing Our Way to Financial Security in the Age of Increased Longevity*, Stanford Center on Longevity, 2018.

15. *The Thinking Ahead Roadmap: A Guide to Keeping Your Money Safe As You Age*, University of Minnesota. 2021.

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Appendix C: 14 Important Retirement Decisions

Survey respondents were asked to rate the importance of the following retirement planning decisions, how much effort they put into each of these decisions, and whether they would appreciate help with each of these decisions.

- Determining investment strategy
- Savings specifically for retirement
- Estimating how much you will spend each year in retirement
- Having a plan for unexpected events such as health or care issues
- Estimating your life expectancy in retirement
- Visualizing what retirement will be like
- Determining when to retire
- Determining when to start Social Security benefits
- Determining the best way to collect Medicare
- Deciding where to live in retirement
- Managing/reducing debt
- What you would do with your home equity in retirement

Appendix D: Nine Possible Messages to Encourage Planning Ahead

Survey respondents were asked to rate the effectiveness of the following messages that could encourage them to plan for retirement.

- If you plan for retirement, you will have less regret about your finances in retirement
- Planning now will give you more peace of mind in retirement
- Planning for retirement will make it less likely that you will be a burden on your family
- Planning for retirement will reduce the chances of you running out of money later in life
- Design a path that will allow you to achieve your retirement dreams
- Planning for retirement will make you better able to face the uncertainties you might face later in life
- Planning for retirement can give you more control of your life in retirement
- Planning for retirement will give you more flexibility in retirement
- You can face retirement more successfully if you plan for it step by step

The effectiveness ratings assigned by the survey respondents are shown in Figure 4 of our primary report *Disconnected: Reality vs. Perception in Retirement Planning.*