SOCIETY OF ACTUARIES

KEY FINDINGS AND ISSUES: The Impact of the Economy on Retirement Risks

>> April 2011

2009 RISKS AND PROCESS OF RETIREMENT SURVEY REPORT

Actuaries

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Introduction and Background

LIVING MUCH LONGER than their parents' generation, today's seniors are spending more of their time in retirement than in the years planning for it. Indeed, a small but growing segment may experience even more years in retirement than in the work force. Not too long ago, retirement planning as a structured process consisted primarily of actions taken and decisions made in the years leading up to the event itself. Starting in the mid-1990's, the Society of Actuaries (SOA) recognized the need to focus on the entire spectrum of risks that seniors have to contend with after they retire. The Retirement Needs Framework Project was instituted to address these risks, and the outgrowth of this project has been a series of surveys conducted biennially since 2001 on the SOA's behalf by Mathew Greenwald Associates, Inc. and the Employee Benefit Research Institute (EBRI).

This special issue report covers the results of the 2009 survey, describes the respondents, and highlights the survey findings, specifically those relating to economic and financial issues. It addresses factors affecting retirement security, equity investments and their management, the effects of delayed retirement, changes in spending habits, and new approaches to quantifying adequacy of retirement wealth. Additional reports already published by the SOA in this series have covered an overview of retirement risks, women's issues, and the process of planning and personal risk management.

While the financial turmoil of 2007-09 may not yet have played out fully, the report makes a preliminary assessment of that event's impact on retirement planning for the years ahead. The survey provides a lens through which to judge the extent of change in retirement risk management strategies in light of the recession, and a framework for evaluating these results in comparison to related studies by the SOA and other organizations.

Conclusions and Summary

THE ECONOMIC DOWNTURN OF 2007-09 was a major economic event that affected the lives of many Americans. The results of the downturn were lost jobs, reduced pay or benefits, longer periods to find new jobs, declines in the stock market, low interest returns, loss of housing values, and foreclosures. Retirees and those planning for retirement, like all Americans, were affected. However, unlike those still working, they have less time to make adjustments after adverse occurrences, and some Americans found their retirement plans severely impacted, whereas others felt little change.

One of the special areas of emphasis of the Society of Actuaries 2009 Risks and Process of Retirement Survey was the impact of the economy on retirement. The survey findings on issues linked to the economy have been blended with other research. Key conclusions are as follows:

- The respondents report that their finances were in worse shape and they were more concerned about retirement security. Many had already taken actions to reduce spending and pay off debt, although this was also true in previous years.

- The changes in the economy affected financial status, but did not seem to affect the way people were thinking about retirement planning and risk management.

- The impact on retirement security varies greatly by household, with some households feeling a major impact on retirement security while others felt no significant impact.

- Couples are relatively better off than single persons with regard to retirement security, and the economic situation did not change that.

- More work is needed to determine which groups are most severely impacted and what options they have for recovery.

- Delaying retirement is a key strategy for dealing with loss of retirement resources, but many people retire earlier than planned either by choice or necessity and delayed retirement is an option that may not be open to everyone.

- Housing is a major asset for many middle Americans nearing retirement age and many have little retirement savings beyond whatever pension they have plus the equity in their house. For some of those with large mortgages or who had planned to sell their house to help finance retirement, the economic downturn had more serious implications.

- Declines in equity prices and very low interest rates affect returns and values in investment markets. Equity markets have recovered some of these losses, but for individual portfolios the results have ranged from minimal to severe.

Most Say They Are Now More Concerned about Their Financial Situation in Retirement

Findings

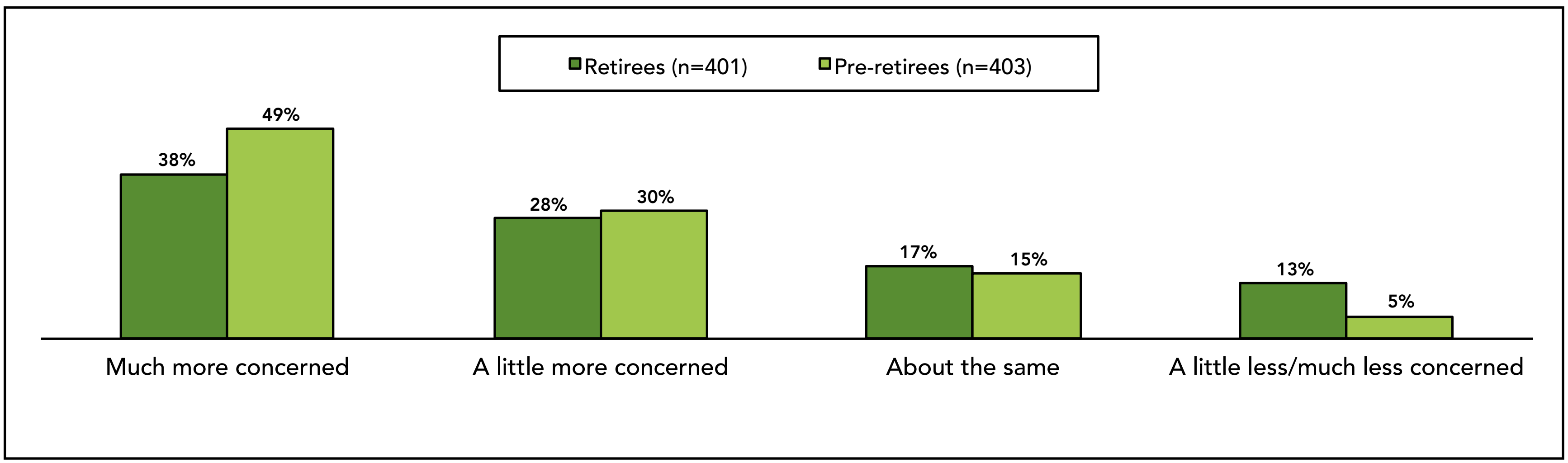
Four in 10 retirees (38 percent) and half of pre-retirees (49 percent) say they are now *much more* concerned about their financial situation in retirement than they were prior to the recent stock market and economic downturn. Another three in 10 say they are *a little more* concerned (28 percent of retirees, 30 percent of pre-retirees).

Discussion

Survey respondents say that they are considerably more concerned about their financial situation, but when asked about specific risk concerns and how they expect to manage the risks, there is not much change in the results from prior surveys.

It appears that some have already taken action, but that there has been less planning for further changes in the aftermath of the economic and financial turmoil than might have been expected.

How much has the recent stock market and economic downturn affected your financial concerns (about retirement)? Are you now…?



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

Pre-retirees, Especially, Report That Their Finances Are Now in Much Worse Shape

Findings

Almost two-thirds of retirees (63 percent) and three-quarters of pre-retirees (77 percent) report their finances are now worse than they were before the recent stock market and economic downturn. In fact, one-quarter of retirees (25 percent) and one-third of pre-retirees (34 percent) say their finances are now *much* worse.

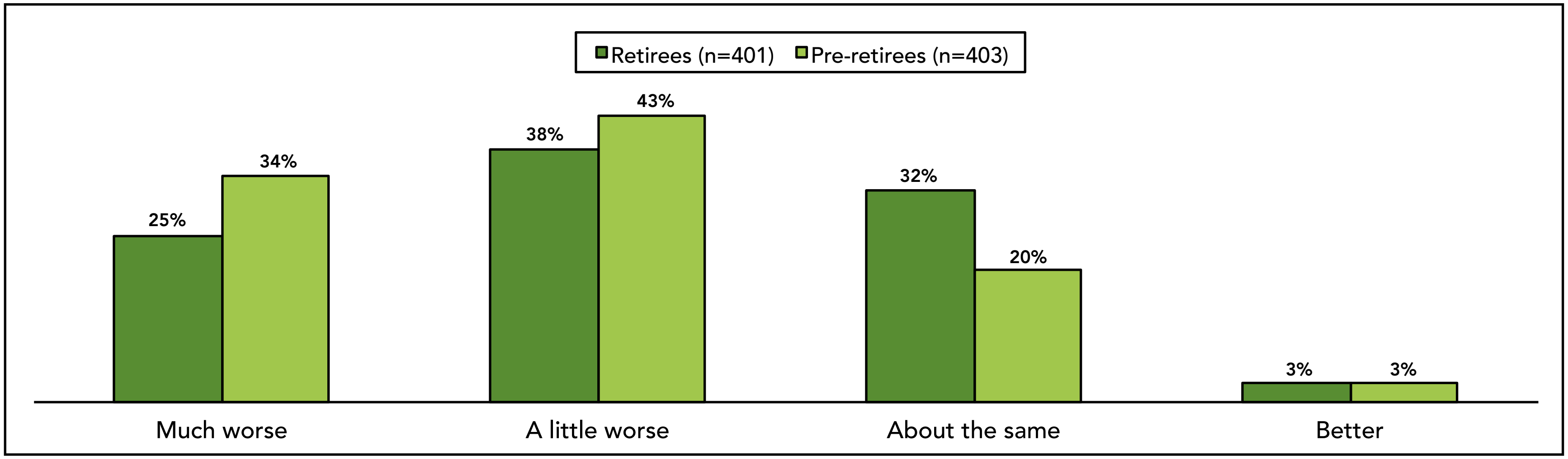
Retirees are less likely than pre-retirees to say their finances are now worse, perhaps because many receive income from guaranteed income sources that have been less impacted by the recession.

Discussion

The impact of the downturn varies by situation, with issues including job loss, value of investments and housing values. Nearly all owners of stock have experienced declines in market value. By mid-2009, the stock market had started to increase again. However, many retirees are not owners of stock, so this would not have a direct impact on them.

Housing values were also down, with the decrease depending on geographic area and situation. However, for homeowners who are not using housing to help finance retirement, particularly those who mortgages are paid-off, this may not be a specific concern.

How much would you say your finances have been impacted by the recent stock market and economic downturn? Would you say your finances are now…?



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

Many Feel They Need to Take Steps to Improve Their Retirement Prospects

Findings

The recent recession has made many retirees and pre-retirees feel they need to do a better job at managing their finances or planning for retirement (51 percent of retirees, 61 percent of pre-retirees) and need to save more money (49 percent of retirees, 72 percent of pre-retirees). While only one-quarter of retirees (23 percent) report they now feel they have to go back to work, two-thirds of pre-retirees (64 percent) indicate they now feel they need to work longer.

Only a small minority of retirees (17 percent) and pre-retirees (25 percent) feel an increased need for professional financial advice as a result of the recession.

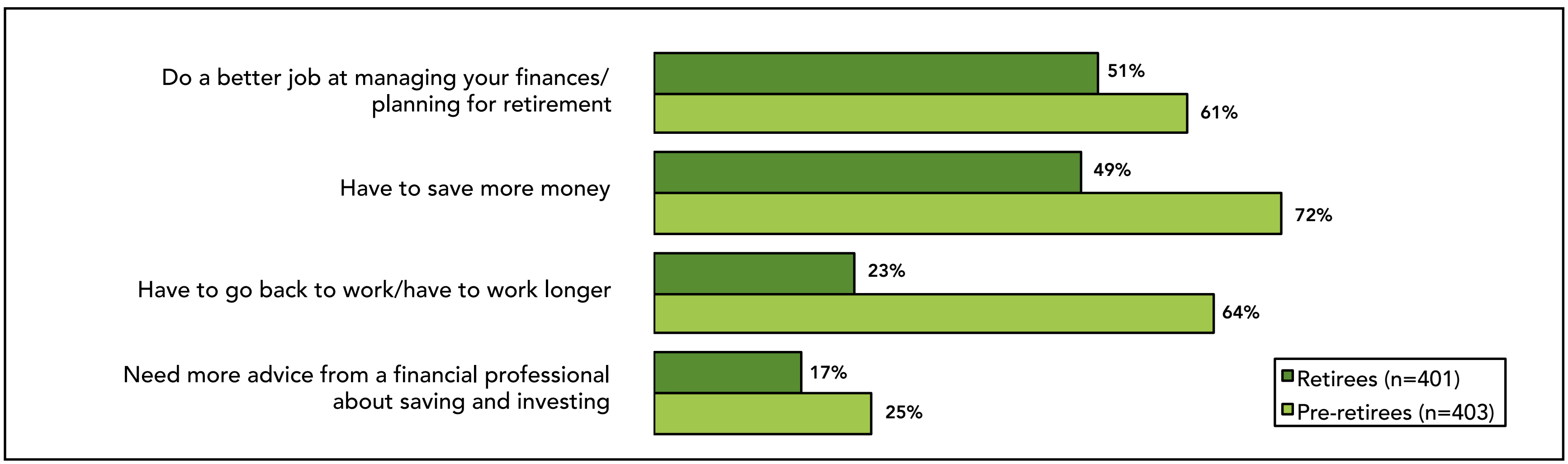
Discussion

It is unclear how much real change will take place.

The response with regard to saving more money is not unlike results from previous surveys.

Working longer may not be feasible for many people because of job losses and the difficulty of finding work in the current employment market. More than four out of 10 people end up retiring earlier than planned.

Has the recent stock market and economic downturn made you feel that you…? (Percentage saying yes)



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

While Concern about Retirement Risk Has Stayed Quite Stable among Those Already Retired, pre-Retirees Appear More Affected by the Economic Turmoil of 2007-09

Findings

The retirement risk that both retirees and pre-retirees are most likely to express concern about is keeping the value of their savings and investments up with inflation (58 percent of retirees *very* or *somewhat* concerned, 71 percent of pre-retirees). Half of retirees and more than six in 10 pre-retirees also express concern about having enough money to pay for adequate health care (49 percent of retirees, 67 percent of pre-retirees) and their income varying due to changes in interest rates (52 percent of retirees, 62 percent of pre-retirees).

Retiree concern about the various retirement risks has remained remarkably stable over time. Pre-retirees were more likely in 2009 than in 2007 to say they are concerned about keeping the value of their investments up with inflation (71 percent, up from 63 percent) and their spouse's standard of living after their death (43 percent of married pre-retirees, up from 35 percent). At the same time, concern among pre-retirees about their ability to pay for long-term care has decreased (55 percent, down from 63 percent), while concern about having enough money to pay for adequate health care has continued the steady decline from its high in 2003 (67 percent, down from 79 percent).

Discussion

Pre-retirees have consistently been more concerned than retirees about a wide range of risks. Retirees' levels of risk concerns are very steady over time, with pre-retirees showing more change in risk concerns.

Concerns about inflation, health care and long-term care have been top rated concerns over a longer period, but the ordering of these concerns has changed over time.

It may be premature to assess the full impact that the recent economic and financial turmoil has had on these concerns, an issue that will be closely monitored in the 2011 survey.

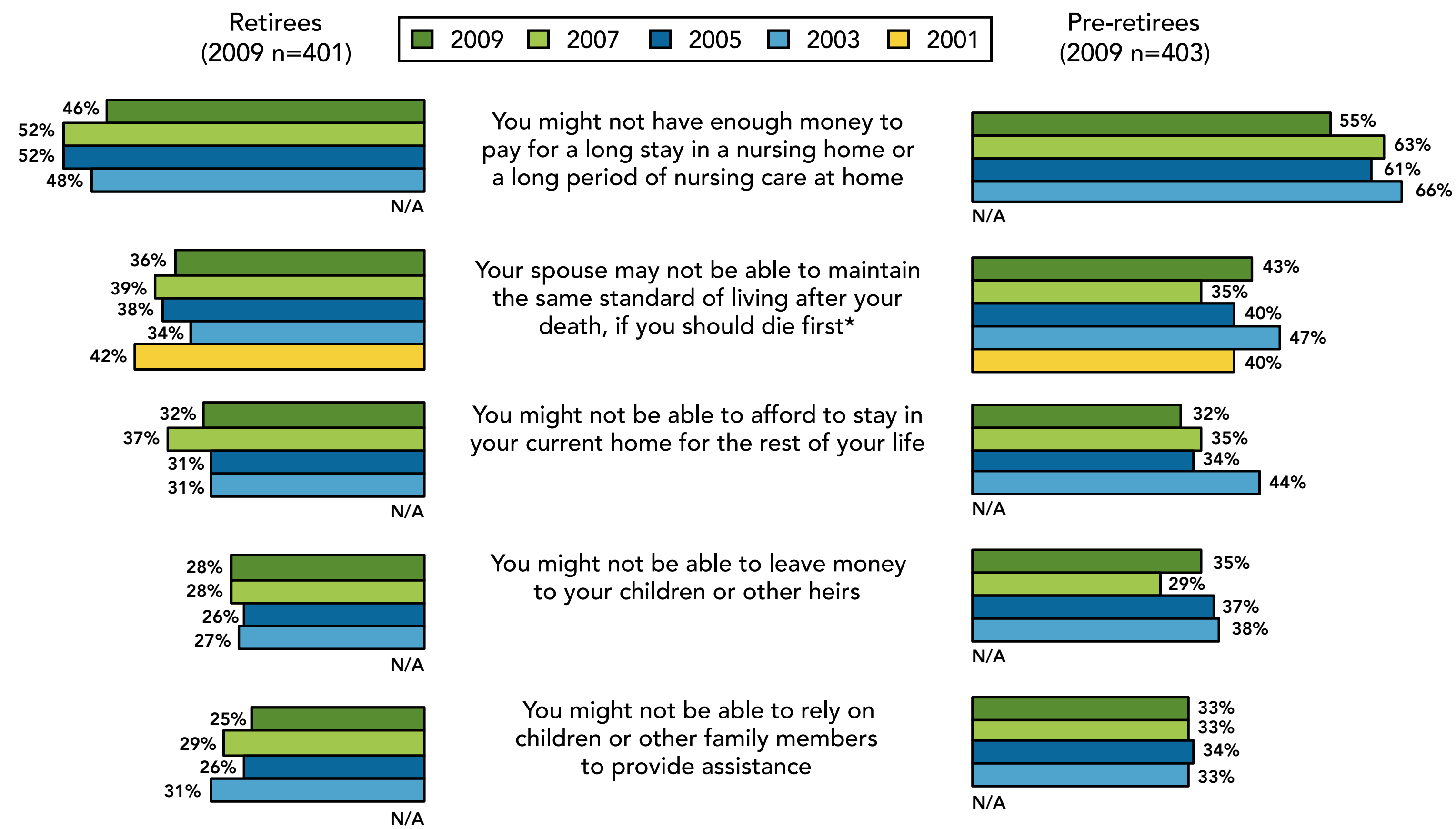
Retirement Risk – A Comparative Snapshot of Concerns

How concerned are you that… (in retirement)? (Percentage Very or Somewhat Concerned)

Source: Society of Actuaries, 2001-2009 Risks and Process of Retirement Surveys

Retirement Risk – A Comparative Snapshot of Concerns (continued)

How concerned are you that… (in retirement)? (Percentage Very or Somewhat Concerned)



NA – not asked
*Asked of married respondents only (2009: Retirees n=260, Pre-retirees n=307)

Source: Society of Actuaries, 2001-2009 Risks and Process of Retirement Surveys

Retirement Risk Management Strategies Have Remained Relatively Constant from 2007-09

Findings

The strategy that retirees and pre-retirees most often say they use or plan to use to manage retirement risks is to eliminate all of their consumer debt, by paying off credit cards and loans (81 percent of retirees, 90 percent of pre-retirees). While the use or planned use of this strategy has remained stable, the 2009 survey shows some changes in the use or planned use of other strategies.

The percentages of retirees reporting they have already cut back on spending (56 percent, up from 48 percent) and moved assets to increasingly conservative investments (43 percent, up from 33 percent) have increased since 2007. At the same time, they are now less likely than in 2005 to indicate they have already completely paid off their mortgage (48 percent, down from 56 percent) and purchased a product or chosen an employer plan option that provides guaranteed income for life (19 percent, down from 27 percent).

Pre-retirees show fewer changes in risk management strategies, although they are also more likely to have already cut back on spending (54 percent, up from 37 percent in 2007) and moved assets to more conservative investments (26 percent, up from 20 percent in 2005).

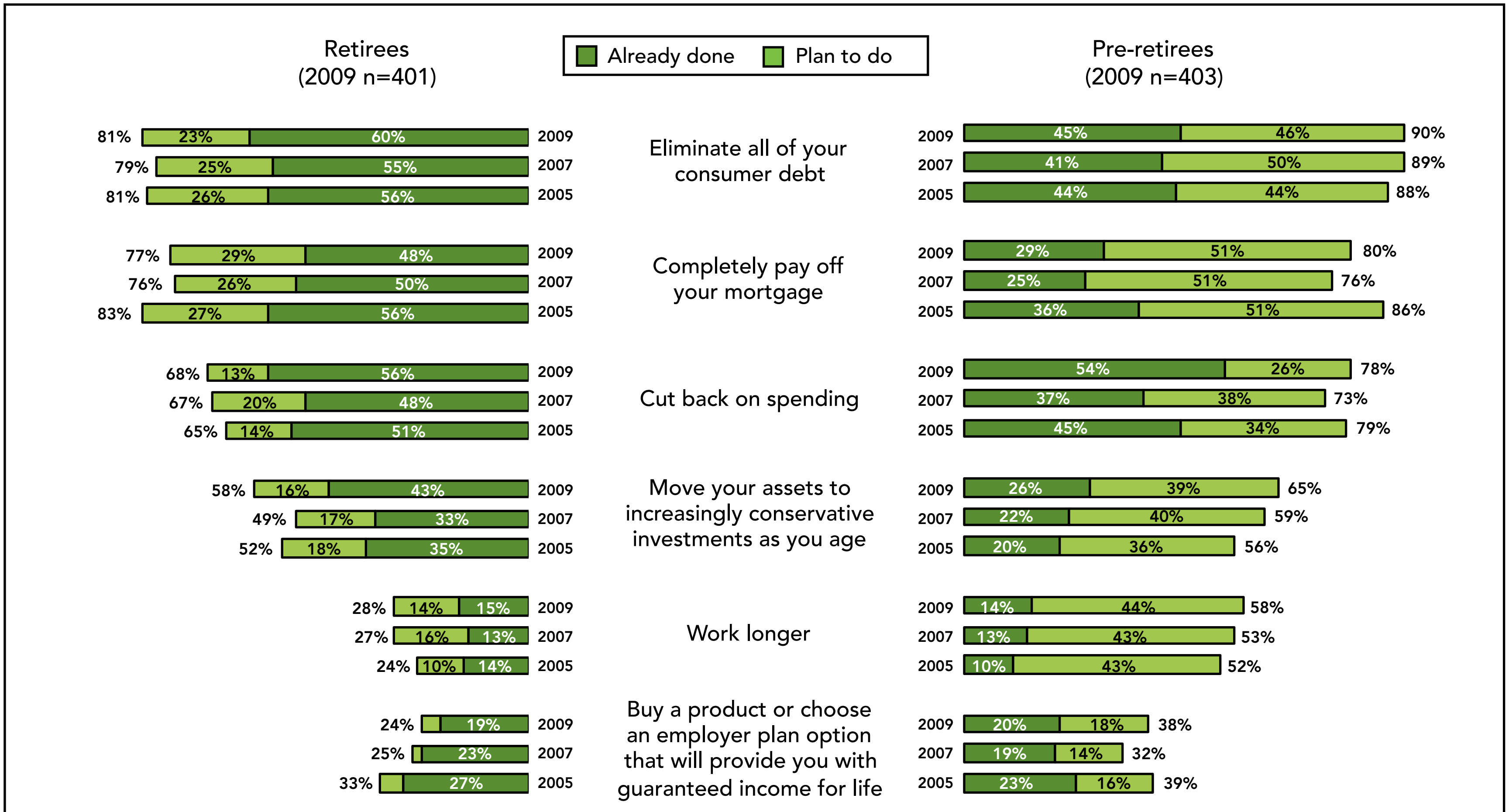
Discussion

Risk management strategies remain generally similar over time and have been a subject of research in several studies. If this data is considered together with planning horizon, it is a source of concern. For too many pre-retirees, their planning horizon is much shorter than their remaining life expectancy, *with hardly anyone planning for the financial consequences of living beyond that point.*

Financial products that transfer risk rank low in methods used to manage retirement risk. It appears that the strategies are much more effective in managing smaller risks than major shocks.

Retirement Risk Management Strategies – A Comparative Snapshot

To protect yourself financially, have you or do you plan to…?



Note: Responses for categories may not sum to total due to multiple responses.

Source: Society of Actuaries, 2005-2009 Risks and Process of Retirement Surveys

Maintaining a Healthy Lifestyle Is an Ideal Risk Management Strategy – Especially Valuable If It Is Carried Out!

Findings

The predominant strategy that retirees and pre-retirees use or plan to use to manage health risk in retirement is to maintain healthy lifestyle habits, such as proper diet, regular exercise and preventative care. In fact, virtually all retirees and pre-retirees say they use or plan to use this strategy (93 percent), and pre-retirees are more likely than in 2007 to indicate they are already maintaining healthy lifestyle habits (84 percent, up from 69 percent).

Although the use of supplemental health insurance has remained steady, both retirees (27 percent, up from 20 percent) and pre-retirees (22 percent, up from 16 percent) are also more likely than in 2005 to say they have already purchased long-term care insurance.

Discussion

It is very good to see that the majority of retirees and pre-retirees say they are concerned about healthy lifestyles. However, there is some concern as to how effective their efforts are and how much they are actually doing.

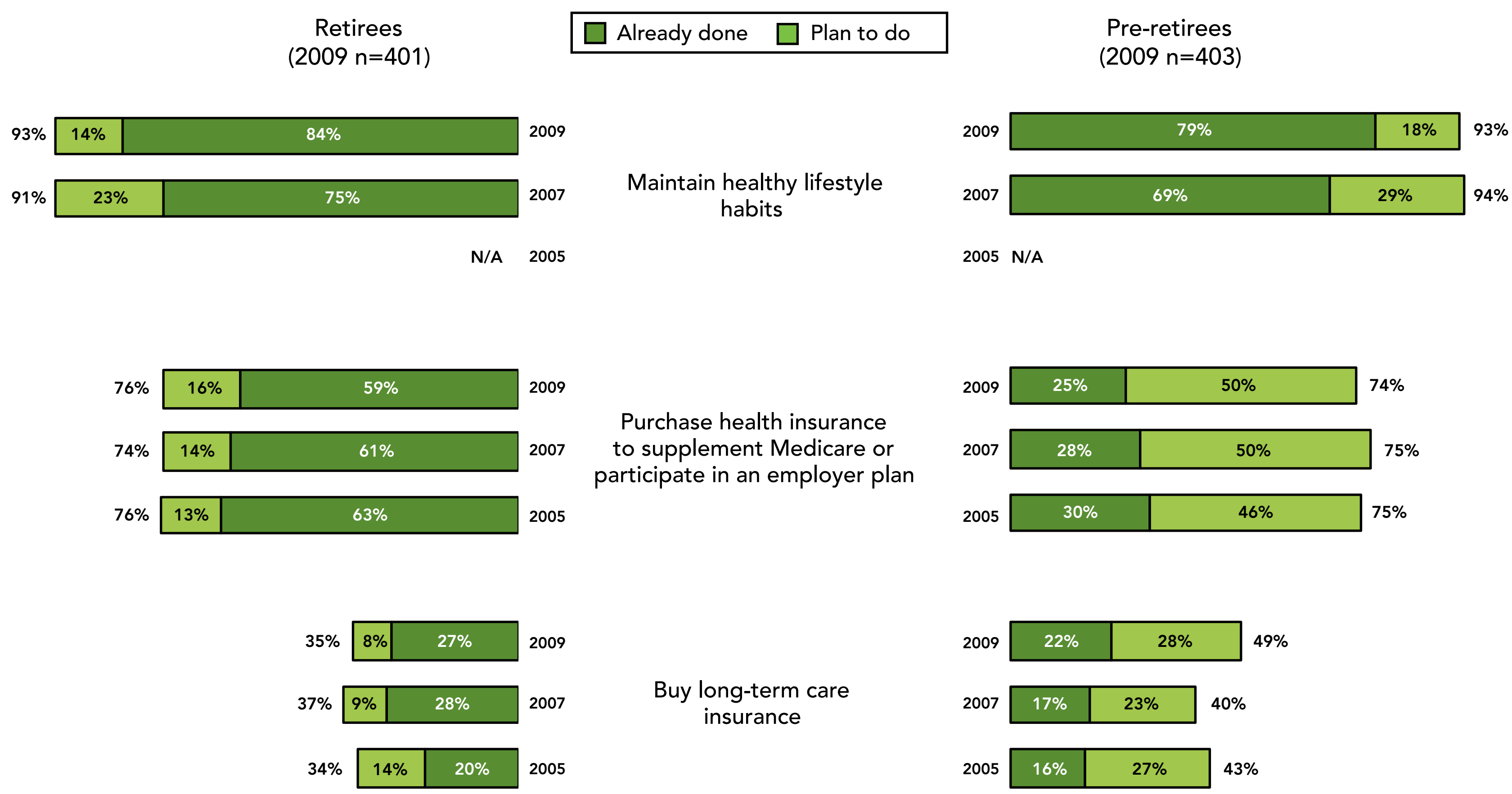
The relative interest in supplemental health insurance vs. long term care insurance is somewhat puzzling. Medicare covers a large share of acute health care costs and almost no long-term care. Yet there is a far greater interest in supplemental health insurance than in long-term care insurance.

Medicaid may be part of the answer to this puzzle. It provides for long-term care in severe cases where all assets have been depleted and is a major payor of long-term care expenses. Many families find that they have catastrophic expenses for long-term care and end up depleting their assets.

However, given the high levels of concern expressed in this and other surveys about depleting retirement assets, it is somewhat surprising that more pre-retirees are not taking greater precaution while they still have time to adopt strategies that reduce this risk.

Retirement Health Risk Management Strategies – A Comparative Snapshot

To protect yourself financially, have you or do you plan to…?



NA – not asked
Note: Responses for categories may not sum to total due to multiple responses.

Source: Society of Actuaries, 2005-2009 Risks and Process of Retirement Surveys

People Find Some Spending Cutbacks Easier to Accept than Others

Findings

If they find themselves needing to reduce their living expenses, retirees and pre-retirees are most likely to say they would find it *very* acceptable to spend less on gifts (47 percent of retirees, 55 percent of pre-retirees) or eat out in restaurants less often (44 percent of retirees, 62 percent of pre-retirees). Other cutbacks that substantial proportions of retirees and pre-retirees would find *very* acceptable are taking fewer vacations (39 percent of retirees, 47 percent of pre-retirees) and spending less on activities (37 percent of retirees, 45 percent of pre-retirees).

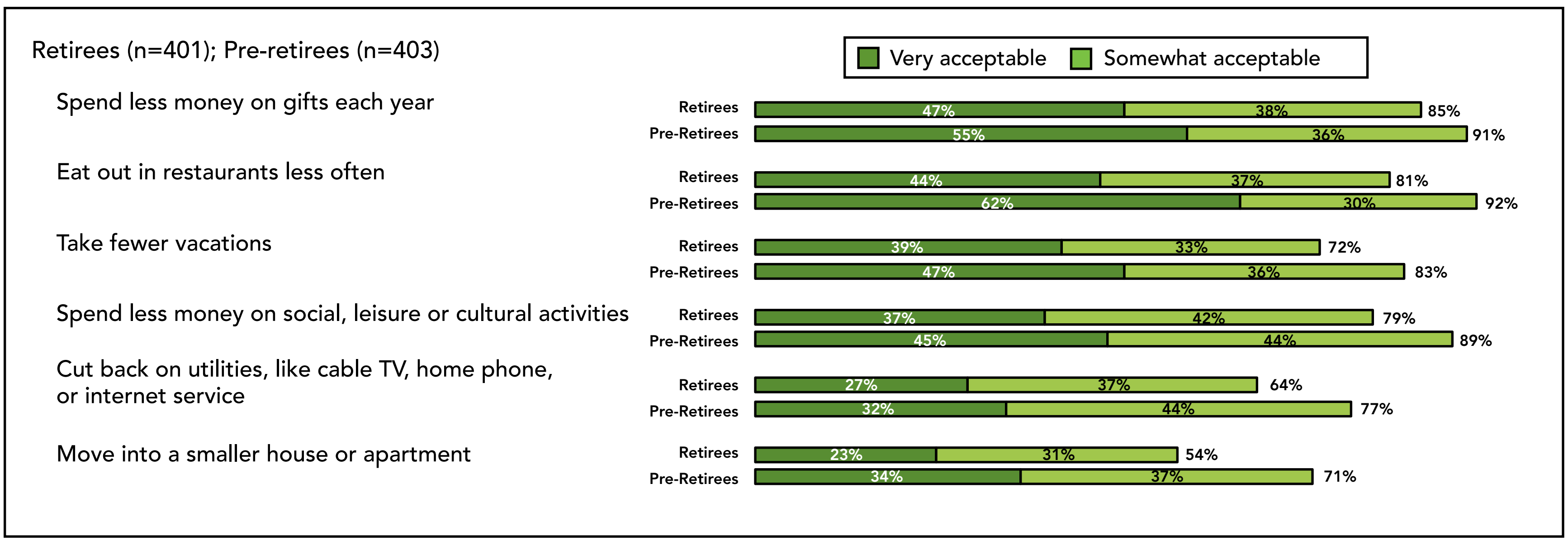
Pre-retirees are more likely than retirees to find almost all of these cutbacks to be *very* acceptable.

Discussion

Cutting expenses is a major risk management strategy and method of adjustment for retirees. This data would indicate that people say that the bigger decisions are more difficult to make than the smaller ones.

Also, not reflected here is the observation that some retirees do not buy much, and when they do, it is more likely that they will look for a bargain. They also have options about when and how to travel and are much more likely to look for lower cost options in planning travel.

If you found yourself needing to reduce your living expenses, how acceptable would it be for you to…?



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

Other Cutbacks Find Much Less Acceptance

Findings

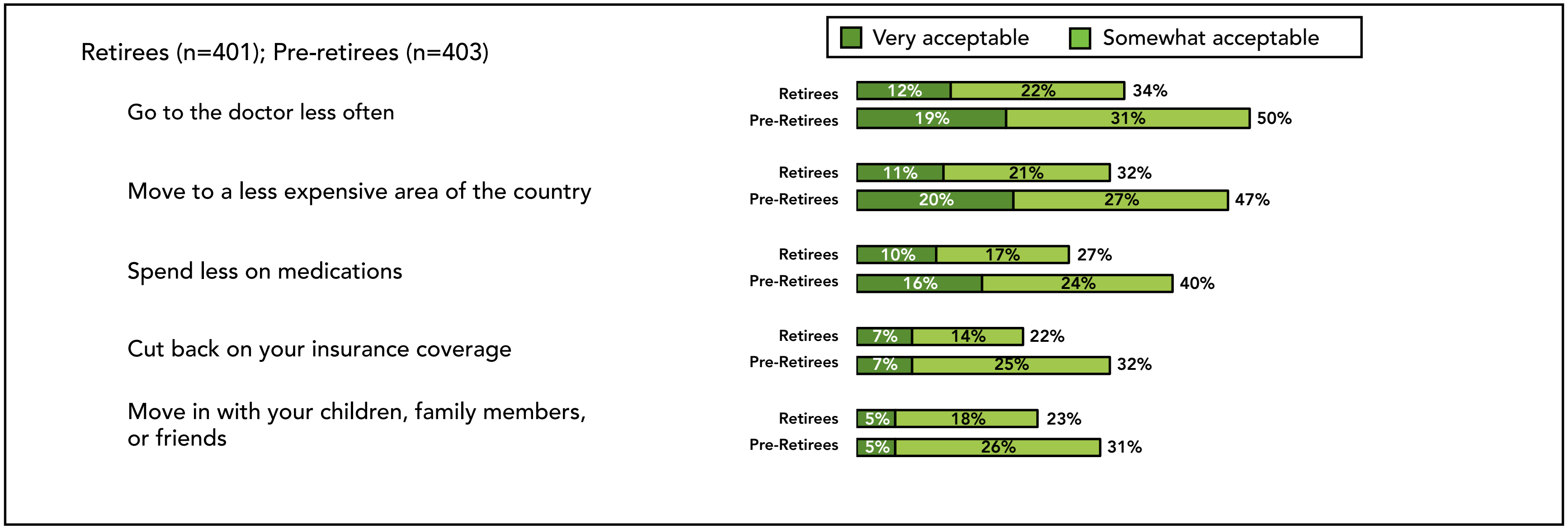
Retirees and pre-retirees are less likely to find some other cutbacks to be acceptable. In particular, few find the idea of going to the doctor less often (12 percent of retirees, 19 percent of pre-retirees), spending less on medications (10 percent of retirees, 16 percent of pre-retirees), or moving to another area of the country (11 percent of retirees, 20 percent of pre-retirees) to be very acceptable. Even less acceptable alternatives are cutting back on insurance coverage (7 percent of both retirees and pre-retirees) or moving in with family or friends (5 percent of both retirees and pre-retirees).

Discussion

Responses indicate that cutbacks that affect health are seen as much less acceptable. Yet other research indicates that such cutbacks occur when people have monetary constraints.

Moving in with other family members is often a last resort especially for a couple though much more likely for a widowed person.

If you found yourself needing to reduce your living expenses, how acceptable would it be for you to…?



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

Related Research and Perspectives

Factors Affecting Retirement Security

As noted, this report presents the results of the 2009 SOA survey issues as they relate to the reactions of respondents to the economic downturn. Its impact on retirement security varies considerably by individual and group, depending on circumstances including such factors as whether retired individuals or couples:

- Had income from a traditional defined benefit plan
- Had to use personal savings for non-retirement purposes
- Owned equities or not and how such investment portfolios performed
- Have investments that provide returns based on a fixed interest rate
- Changed employment plans, lost a job or tried to secure a new job
- Own a home, and were planning to take any action such as downsizing or taking a reverse mortgage
- Have a mortgage or not, and particularly whether it involved a balloon or increasing payments or was subject to foreclosure
- Decided to retire or were forced to do so earlier than planned

Perhaps least affected are those at the lower end of the income scale, for whom Social Security will be their major, if not their exclusive source of retirement income. Conversely, those at the extreme upper end of the spectrum of income and wealth, measured in single-digit percentages among participants in this survey and in the general population also, are more likely to have the resources to absorb the impact of economic cycles and fluctuations in financial markets.

Equity Investment and Management

Balances in retirement accounts—defined contribution plans and IRAs—aggregated to about $8.7 trillion in the third quarter of 2007. By the end of the first quarter of 2009, when the stock market bottomed out, they had lost $2.8 trillion or 32 percent of their value. Balances were back up to $8.1 trillion in the third quarter of 2010. (Source, Urban Institute Fact Sheet, October 2010, *Retirement Account Balances*) Thus, while the market has recovered significantly, it could be several years before many retirees feel as well-off as they did just a few years ago.

Equity declines are not expected to have as significant an impact on many of those individuals nearing retirement. A 2009 paper focused on stock market fluctuations and retirement decisions estimated that about 15 percent of the financial wealth of workers aged 53 to 58 was in stock. The analysis included as retirement wealth the discounted present value of Social Security benefits and pensions. The paper estimated that stock market declines would result in an average retirement delay of only a month-and-a-half, almost insignificant. (Source: NBER Working Paper 15435, *What the Stock Market Decline Means for the Financial Security and Retirement Choices of the Near-Retirement Population* by Alan C. Gustman, Thomas L. Steinmeier, and Nahid Tabatabai).

Spending Habits and Use of Retirement Funds to Meet Other Needs During the Recession

The Pew Study, "How the Great Recession has Changed Life in America", focused specifically on the recession's impact on retirement. It reported that "Four-in-10 adults (41 percent) who have a checking, savings or retirement account say that during the recession they had to withdraw money from their savings, 401(k) account or some other retirement account to pay their bills." This finding, corroborated by numerous reports in the national press, is particularly troublesome in situations where unemployed individuals are using retirement funds prematurely.

The SOA's own report referenced earlier on the process of retirement planning found that half of all retirees said they had cut back on spending in response to the economic downturn, and another 16 percent said that they planned to do so. However, a report by Hurd and Rohwedder, published by the University of Michigan's Retirement Research Center in conjunction with the Rand Corporation, ("Effects of the Recession on American Households," June 2010) found that while a majority of the population did experience some increase in financial distress between November 2008 and May 2009, the impact was felt much more acutely by younger families. Only 8 percent of those 60-69 and 3 percent of those 70 and older said that the recession had caused them financial difficulties. To some degree, this last finding may reflect the extent to which seniors are dependent on Social Security for a significant portion of their income.

Clearly, the messages from these various studies do not align perfectly; the target populations are different, and the way questions are worded can significantly affect responses. However, their findings are consistent with other studies including those in this series of surveys, which show that seniors are fairly resilient in their capacity to cut back on spending in response to economic adversity. Whether this will be as true of the baby boom generation with its greater expectations relative to that of today's retirees, will remain a topic of future surveys. Suffice it that the economic and financial turmoil of 2007-09 has had some effect on the retirement security of seniors, although its impact varies greatly according to such variables as income and factors such as those listed at the beginning of this section.

Delaying Retirement—Choice or Necessity?

Delaying retirement is a major strategy for dealing with inadequate retirement savings. For many years the SOA risk survey has included questions about planned retirement age and compared the responses to the actual age of retirees. It has repeatedly been shown that pre-retirees expect to retire much later than when current retirees actually did. Other research (EBRI Retirement Confidence Study) offers confirming evidence that between four and five in 10 workers end up retiring earlier than planned. The Pew Study provides insight into what people say about delaying retirement. It found that "Among adults ages 62 and older who are still working, 35 percent say they've already delayed retirement because of the recession." The Pew Study also indicated that "Among adults ages 50 to 61 who are currently employed, six-in-ten say they may have to delay retirement because of the recession."

Other research looks into the job prospects of older workers and the chances that they will be laid off. An Urban Institute study indicates that layoff rates are lower for older workers than younger workers, but when the results are adjusted for length of service, this is no longer true.

Delaying retirement has been cited as a key strategy for dealing with declines in assets. But it does not work when one is unable to find a job. Various research looks at unemployment issues related to older persons. Unemployment rates are lower for those age 55 and older than for younger workers. In 2010, rates at age 55 and over were 7.7 percent for men and 6.2 percent for women. But once older workers lose jobs they have more trouble finding new ones, and they are more likely to experience deep pay cuts if they find new work. Workers aged 50-61 who lost jobs between mid-2008 and the end of 2009 were a third less likely than those age 25-34 to find a job within 12 months. Those age 62 and over were 50 percent less likely to find a job in 12 months. And this research also shows that older displaced workers who find jobs must often accept deep pay cuts. Displaced men aged 50-61 who became re-employed between 1996 and 2007 had a 20 percent drop in median hourly wage. For men re-employed at 62 and older, the drop was 36 percent, as compared to a 4 percent drop at ages 35 to 49. (Source: Urban Institute, *Can Unemployed Older Workers Find Work?*, January 2011, by Richard W. Johnson and Janice S. Park)

Other research offering a different perspective has been conducted with regard to employment decisions and the downturn. The Center for Retirement Research Issue Brief "Responding to the Downturn: How Does Information Change Behavior" makes the case that providing information will cause more people to delay retirement. (Issue Brief 10-20, December 2010). Of course what people say and what they actually do does not always match.

Several New Insights Attempt to Quantify Adequacy of Retirement Income and Wealth

Many Baby Boomers Are Not Adequately Prepared for Retirement

The SOA's report on the Process of Retirement and Personal Risk Management provides ample evidence that most Americans in the baby boom generation are inadequately prepared for the financial challenges they will encounter in their retirement. Not only have they saved insufficiently during their working years but, unlike many seniors of their parents' generation, fewer will have traditional defined benefit pensions as part of their retirement income. Increasingly, they will retire on Social Security plus whatever can be provided by the accumulation in their defined contribution (401(k), IRA) plans. And unlike defined benefit plans, which relieve participants from both investment and mortality risks, their defined contribution plans will require them to take responsibility for managing such risks, tasks few are equipped to handle. Thus it was no surprise that more than 70 percent of pre-retirees in the 2009 survey and almost 60 percent of retirees expressed concern over keeping the value of their savings up with inflation, with almost 60 percent of pre-retirees and almost half the retirees concerned that they would deplete their savings. These concerns existed prior to the economic downturn, but they have been exacerbated by the financial turmoil of 2007-09.

Opinions Differ As to the Adequacy of Retirement Resources

Many middle-income Americans find their retirement security at risk. Without minimizing the seriousness of the level of concern registered by such seniors about being able to protect their retirement wealth over their remaining lifetimes, it may also be helpful to look at the issue of adequacy from a consumption perspective. The same team of Hurd and Rohwedder previously cited have conducted research that measures economic well-being in retirement in terms of ability to finance an adequate level of consumption, rather than necessarily maintain a given level of wealth or the pattern of spending they enjoyed during their working lives. Matching consumption patterns to incomes for recently retired seniors, Hurd and Rohwedder ran stochastic simulations to determine a probability distribution that the last survivor of a household would die with positive or negative wealth. Their methodology is not unlike the Monte Carlo models used by some investment managers to evaluate the probability, based on levels of wealth, income and spending habits, that their clients will be able to achieve their retirement goals.

Hurd and Rohwedder, unlike many researchers focused on adequacy, concluded that by their criteria, the majority of married couples were well prepared financially for retirement, although not surprisingly their results were also much more favorable for couples with higher incomes and levels of education. For single retirees, on the other hand, they found the outlook much less optimistic, and at the lower levels of education the likelihood was high that the individual would die with zero or negative wealth. And as noted, most baby boomers now on the cusp of "normal" retirement age have spending expectations typically grander than their parents' generation, so that Hurd and Rohwedder's consumption standard for a retired couple –some $42,000 a year – might seem much more spartan than EBRI's, cited below. Further insights into this research are beyond the scope of this report, but interested readers may wish to access the full study. The variations in Hurd and Rohwedder's findings by marital status, income and education are in line with most of the research referenced throughout this report.

The research just cited focused on spending rather than replacing income. It uses stochastic analysis. All such approaches are, of necessity, highly dependent on input assumptions including, most importantly, the level of retirement income considered "adequate." Another approach to adequacy is put forth by an EBRI/Center for Retirement Research Study. The Center for Retirement Research, for example, uses 85 percent of pre-retirement income. Their data, from Federal Reserve surveys for households headed by people 60-62, showed a median annual income of $87,700 in 2009, in other words, an "adequate" retirement target of about $75,000. But even among those in their 60s who have worked for the same institution for at least 30 years—a rarity these days—the median 401(k) balance was less than $160,000, according to Jack VanDerhei of EBRI, one of the co-sponsoring organizations of this survey.

Earnings from that level of asset accumulation would replace only a small fraction, less than one dollar in eight, of a $75,000 income target, with about 47 percent coming from Social Security and another 35 percent from traditional defined benefit plan pensions. These three sources would aggregate to just over $70,000, that is, about 95 percent of the couple's retirement target. So in the absence of other savings, the third leg of the traditional "three-legged stool" of retirement security, most retired couples would fall short of their goal.

It should be noted that Hurd and Rohwedder's study of retirement adequacy was conducted in 2008 before the effects of the 2007-09 recession had a chance to be reflected in income and spending patterns. However, given the conclusions discussed earlier from their June 2010 study specifically tracking the effects of the recession, it seems improbable that the major thrust of their conclusions regarding adequacy would change in any major way.

Putting It All Together: The “Three-Legged Stool” of Retirement Resources Is No Longer as Sturdy

Within the not-too-distant memory of those writing on these issues, the “three-legged stool” was the analogy used for the principal components of retirement security. Social Security was the leg available to practically everyone; some form of employer-sponsored pension plan, traditionally defined benefit, the second component for the vast majority of employees in the private sector and government alike; and personal savings, the third leg to top the first two up to whatever level of income each person felt necessary for a comfortable retirement.

Starting around the early 1980s, defined contribution plans were introduced by many employers either to supplement, but more recently to substantially replace, traditional defined benefit plans. For many years, there have been concerns because many people are not covered by employer plans and individual retirement savings have been far lower than optimum. Many Americans have little in the way of financial assets saved for retirement. For those with assets set aside and invested in the financial markets, the recession of 2007-09 was a shock as it took a major toll on 401(k) and similar defined contribution balances, especially where they were invested in equities. Balances have partly recovered and the impact on individuals varies. The long-term impact remains to be seen. Long-term unemployment, a condition not experienced at today’s levels since the Great Depression of the 1930s, has been a catalyst for many to use funds intended for retirement just to survive. Thus, while the first leg of the stool still remains, the second has for many become tottery, and the third badly eroded. Compounding these issues are longer life spans and declining employer support for retiree health coverage. The U.S. retirement system is in an evolution, and it seems very likely that a major rethinking of income security for senior citizens is coming.

About the 2009 Survey

The Survey

The 2009 Risks and Process of Retirement Survey asked respondents about a number of risks relating to retirement. Their preponderant concerns related to keeping the value of investments up with inflation, income varying due to changes in interest rates, the affordability of health care and long-term care, outliving assets, and maintaining a reasonable standard of living. In most respects, Americans' concerns changed little from 2007.

The survey is designed to evaluate Americans' awareness of retirement risk, how their awareness has changed, and how their awareness affects the management of their finances. The survey was conducted through telephone interviews of 804 adults age 45 to 80 (401 retirees, 403 pre-retirees) in July 2009. Households were selected for participation from a nationwide targeted list sample. The margin of error for study results, at the 95 percent confidence level, is ±5 percentage points for questions asked of all retirees or all pre-retirees.

To further the understanding of changes in perception of risk, this series of surveys includes new questions with each iteration and not all questions are repeated from year to year.

The Respondents

Like its predecessors, this survey divided respondents into two groups, referred to throughout this report as "pre-retirees" and "retirees," with each group analyzed separately, irrespective of their actual age. In fact, fully a half of retirees retired before the age of 60, while a small minority of pre-retirees continue to work into their 60s and even 70s. The results of the report are based on a representative sample of Americans and do not provide specific insights concerning high net worth individuals.

Only 3 percent of retirees and 5 percent of pre-retirees report having $1 million or more in savings and investments, and 6 percent each of retirees and pre-retirees report having between $500,000 and $1 million. Eleven percent of retirees and 35 percent of pre-retirees indicate they have household incomes of at least $100,000. At the low end of the spectrum, 24 percent of retirees and 22 percent of pre-retirees indicate they have less than $25,000 in savings and investments, while 18 percent of retirees and 6 percent of pre-retirees report income under $25,000. These net worth and income characteristics are not out of line with those for Americans as a whole.

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The views and opinions expressed in this report are those of the authors and do not necessarily reflect those of the Project Oversight Group.

TO OBTAIN A COPY OF THE COMPLETE SURVEY REPORT

The *2009 Risks and Process of Retirement Survey Report* may be obtained from the website of the Society of Actuaries at *www.soa.org.*

NOTES:

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