



Retirement Survey Report
Key Findings and Issues:

Shocks and Unexpected Expenses in Retirement



**SOCIETY OF
ACTUARIES**

ACKNOWLEDGMENTS

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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 nor the SOA as a whole.

TO OBTAIN A COPY OF THE COMPLETE SURVEY REPORT

The 2015 Risks and Process of Retirement Survey report may be obtained from the website of the Society of Actuaries at www.soa.org.

Shocks and Unexpected Expenses in Retirement

Introduction and Background

How do retirees plan to handle future risks and unexpected events in retirement? A common way of thinking is “I will deal with it when it happens” or “I will figure it out,” according to Society of Actuaries (SOA) focus group interviews with recent retirees in 2013. This was a major finding, and it prompted the SOA project team to ask, “What does that mean for the future of retirees who experience shocks?”

In particular, what problems would be created by unplanned for shocks and unexpected future events?

Such events are often referred to as “shock” events due to their powerful impact and the often surprising nature of their arrival. Examples include death of a spouse, entry into a long-term-care facility, or a major repair to the home, among many others. The shocks put retirement plans at risk due to the major disruption

they cause in the lives of retirees and the often costly and unplanned for financial burdens that result.

In 2015, the SOA project team decided to explore the impact of shocks as part of its biennial Risks and Process of Retirement Survey. The researchers also decided to conduct focus groups in the United States and Canada with those who have been retired for 15 years or more to elicit understanding of how longer-term retirees were doing and how much they had been affected by shocks. In addition, the researchers conducted in-depth interviews with caregivers of retirees currently needing long-term care and retired 15 years or more.

This Special Topic Report identifies important findings of this groundbreaking research. First, some detail on the research itself.

About the SOA's Research on Shocks and Unexpected Expenses

This Special Topic Report on Shocks and Unexpected Expenses in retirement draws from findings in the SOA's 2015 Risks and Process of Retirement Survey as well as from the 12 focus groups and 15 in-depth interviews, also conducted in 2015.

(See the SOA website, <https://www.soa.org/Research/Research-Projects/Pension/2015-risk-process-retirement-survey.aspx> for additional Special Topic Reports that draw from this and other research. The other reports cover retirement risks, spending and debt management, and longevity.)

The main research projects include the following:

- *The SOA's [2015 Risks and Process of Retirement Survey](#)*, a study that examines public perceptions related to post-retirement risks and how they are managed. Conducted on the SOA's behalf by Mathew Greenwald and Associates, it is the SOA's eighth biennial study on this topic. The SOA has conducted these studies for more than 15 years. The 2015 survey provides quantitative data on the views of more than 2,000 older Americans, ages 45 to 80, with pre- and post-retirees split nearly 50/50, as well as nearly 200 widows. The predominant focus is on experiences of middle-income Americans. As with the earlier SOA surveys, the researchers in the 2015 survey introduced some new questions, and some older questions were not asked this time due to the selected areas of focus for this survey.
- *Twelve SOA Focus Groups* that explored how well long-term retirees have coped financially in retirement and how unexpected expenses have impacted their retirement security. The SOA conducted the focus groups in 2015 in three cities in the United States and two cities in Canada. The results appear in [The Post-Retirement Experiences of Individuals](#)

[Retired for 15 Years or More](#), a study that the SOA published in early 2016. Each focus group explored experiences of participants who had been retired for 15 years or more. It is noteworthy that spending was a major topic for these focus groups, with the research team expressing interest in learning whether the experiences of longer-term retirees were different from those more recent retirees.

- *Fifteen in-depth interviews* with people who were serving as caregivers for long-term retirees chosen using criteria parallel to those of the focus groups. Here again, the interview subjects included individuals from both the United States and Canada. A report on the interviews also appears in the SOA's 2016 study [The Post-Retirement Experiences of Individuals Retired for 15 Years or More](#). The researchers considered the interviews to be important additions to the focus groups because people needing long-term care were not represented in the focus groups, and the SOA wished to be sure they were represented in the new study.

For more detail on these research projects, please see the section at the end of this report, titled **Profile of the SOA Studies**.

This Special Topic Report incorporates findings from other studies as well.

The above studies cover a wide range of topics, but this Special Topic Report focuses specifically on their findings about shocks and unexpected expenses in retirement. It includes responses to selected questions from the 2015 survey; a brief summary of the results; amplification with quotations from the focus groups and interviews; and commentary from some of the SOA's Project Oversight Group members as well as representatives of organizations that supported the studies and from other resources as appropriate.

Top Observations on Shocks and Unexpected Expenses

MAJOR FINDINGS

The focus groups and interviews required a minimum investable asset level of \$50,000. The findings would likely be different for those who did not have this amount of assets. With that in mind, here are some of the key findings with regard to shocks and unexpected expenses:

- *Willing to adjust.* The retirees are resilient, and they are willing to make substantial adjustments in spending to manage. Many are managing very well, and overall they are doing better than some of the project team had expected.
- *Difficulties tend to increase with the number of shock events.* Shocks and unexpected expenses affect the majority of retirees. Families that deal well with one or two shocks may find the situation gets more and more difficult when faced with additional shocks.
- *Multiple shocks do occur.* About one in five retirees (19%) and 24% of retired widows experienced four or more shocks during retirement. In contrast, 28% of retirees and 13% of retired widows had not yet experienced any shocks.
- *Home repairs and dental expenses top the list.* The two most frequently mentioned financial shock and unexpected expense items are home repairs and dental expenses. Although people can accumulate reserve funds for both types of expenses, it is not easy to insure the potential exposures. (Retirees who are condo owners do benefit from their share of building repairs being incorporated into their monthly maintenance fees; however, condo owners face the potential for special assessments that come unexpectedly, can be for significantly large amounts, and afford little or no control over timing for payment.) Dental insurance is available to retirees on a limited basis, and benefits may be limited for certain procedures.
- *Lower income retirees face much greater problems.* Almost three in 10 (29%) of retirees with annual incomes of less than

\$35,000 had experienced four or more shocks compared to 10% of retirees with income of \$75,000 or more. The experiences and perceptions of retirees were quite different by income level in many different areas. We do not know whether the shocks lowered the income of the retirees or whether they had a lower income before their shocks.

One of the big questions asked about shocks and unexpected expenses was how much impact they had on retirees. The answers revealed the following:

- *Assets decline.* More than one in three who experienced shocks had their assets reduced by 25% or more as a result of those shocks.
- *Spending drops.* More than one in 10 who experienced shocks had to reduce spending 50% or more as a result of those shocks.
- *But many do manage.* About three in four retirees felt they were able to manage within their new financial constraints at least somewhat well.

The researchers also asked about adjusting to and dealing with shocks and unexpected expenses, with these results:

- *Long-term care and divorce were most problematic.* Retirees did indicate that they were able to make adjustments and deal with unexpected expenses in a number of areas. However, there are two areas that had a major impact and for which they were much less well able to adjust. These were major long-term-care events that required paid long-term care and divorce after retirement.
- *Long-term-care insurance could help.* The research showed that increased use of long-term-care insurance would help some families. However, such insurance is relatively expensive for those with modest means. Some will not be able to afford it, and others may choose to take the risk of going without it.
- *Devastating shocks were low in frequency.* The survey

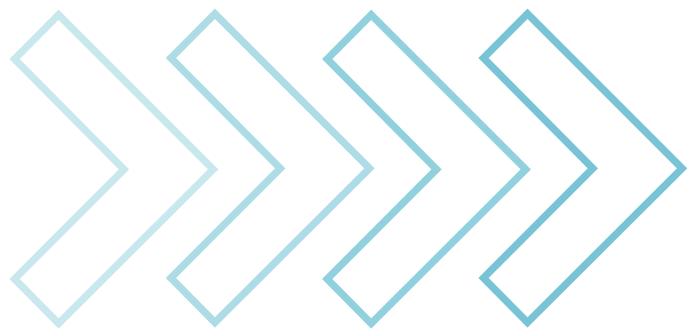
included some shocks that could easily be devastating including fraud, foreclosure of home and bankruptcy. All of these shocks had low frequency. It is worth noting that these shocks were not represented in the focus groups. This may be because of the asset limits or because the focus groups comprised a relatively small sample of the retiree population.

- *Widowhood is a shock.* Sometimes the death of a spouse is totally unexpected. Many retirees indicated household income did drop as a result, but most said they were able to make adjustments and manage. For some, household assets also dropped. Even so, the SOA findings do not show as much impact from widowhood as reported in some other studies. (Note: The SOA research did not specifically address blended families; the issues may be more difficult for blended families with children.)
- *Medicare supplement insurance helps.* Those who purchased a Medicare supplement in addition to Medicare usually had their health care bills well covered and were not significantly concerned about health care expenses. Of course, they may pay substantial premiums, including Medicare Part B and D premiums, in addition to the supplement premium. Medicare and supplements do not cover dental expenses. While Medicare supplements have standard structures, Medicare Advantage plans are designed by the companies that offer them and they have a wide variety of benefit structures.

REFLECTIONS ON THE MAJOR FINDINGS

Some overall reflections on these findings suggest there are questions to consider for analysis and possibly further research. These include the following:

- *Questions.* An unanswered question is how retirement professionals and providers can be more effective in helping people better prepare for and deal with shocks. A related question is how the after-effect of these shocks will impact their longer-term retirement security.
- *Budgeting and planning.* Different methods of budgeting and financial planning likely reduce the impact of unexpected expenses. Setting aside funds to handle home repairs and dental expenses is one example. More focus on emergency funds can protect against problems arising from one-time unexpected expenses. This will not reduce the expenses, but it might spread them over time and provide for a much more realistic assessment of, and adjustment to, expenses.
- *Spending adjustments.* People adjust their spending in response to changes in circumstances. More research is needed to think about the implications of different levels of retirement resources and to define what is needed in retirement. While retirement adequacy calculations generally do not assume substantial changes in spending, many people seem quite willing to make such changes.
- *Parents' experiences with shocks.* The researchers asked retirees about their parents' experiences with shocks and how their parents' experiences influenced them. The differences in these experiences may provide some indication of what the retirees may experience in the future and of how society may need to deal with population aging. Things to expect in the future are more illness and disability and more people needing help including assistance with financial management. There is little recognition that more people will need help with financial management. The research team noted that parents' experiences with financial management may also be indicative of what might be expected as people move into their 90s. This is an area for further research.
- *Retirement adequacy and needs.* Traditional measures of retirement resource adequacy and of retirement needs do not focus on shocks or retirees' willingness to make adjustments in lifestyle and spending. The findings of this work suggest that further research on adequacy is desirable.



While shocks and unexpected expenses do happen, this research found that many—but not all—retirees believe they have been able to adjust. Shocks, such as the death of a spouse, a divorce during retirement, or the need for paid long-term care, can cause retirees to face limitations going forward. In some cases, they have been able to adjust. Following is a focused look at some relevant findings in these various areas.

1 Types of Shocks and Unexpected Expenses Vary

FINDINGS ON VARIETY OF SHOCKS

Retirees indicated that they experience a variety of shocks and unexpected expenses in retirement. The types most often reported include major home repairs and upgrades (28%), major dental expenses (24%), and significant out-of-pocket medical and prescription expenses (20%). Fewer than 20% of retirees reported unexpected expenses in several other categories such as drop in home value, illness/disability and running out of assets.

Not unexpectedly, more than half of retired widows (56%) but 10% of retirees overall reported the death of a spouse or partner during retirement. (Some retired widows included in the survey may have lost their spouse prior to retirement.)

DISCUSSION

There are areas of shocks that had relatively low frequency in the survey but can be devastating. These include bankruptcy, foreclosure and victimization by fraud. More work is needed to understand the impact of such events and how to prevent them.

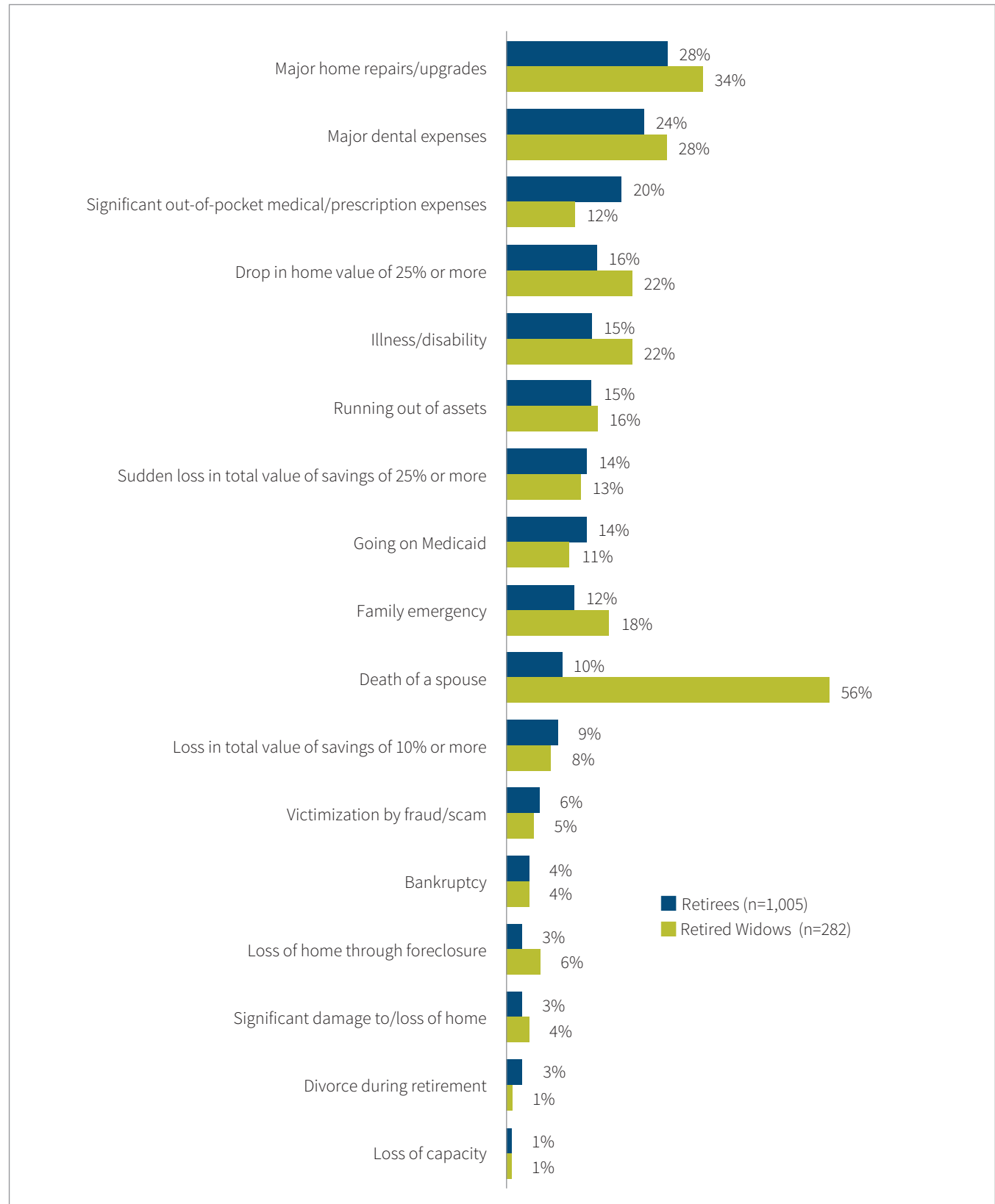
The most common “unexpected” expenses are predictable, and a different method of planning and budgeting would move them from the “unexpected” to the “expected” column. A big question is how to improve the strategies that individuals are using to deal with shocks.

FOCUS GROUP QUOTES

- ***“In 2013 I got colon cancer. ... The medical cost and stuff like that was unreal. I’ve had to spend ... \$3,900 had to come out right off the top.”*** —Male, Dallas, TX
- ***“Dental ... I mean, you start to get into thousands of dollars sometimes and no insurance.”*** —Female, Chicago, IL
- ***“We just separated. I had my own money and investments and he had his. We had one account and that was the house account. Yeah, so he took what he had and we split the house.”*** —Female, Kitchener, ON
- ***“I’ve had—our house upkeep, furnace, driveway. In the last month, I have spent \$2,500 on one expense, \$3,600 on another expense. That’s in one month. A couple of years ago, my roof went and my furnace went. Everything.”***
— Female, Chicago, IL
- ***“My daughter lives alone. ... She was on her way to a teacher’s meeting and she crossed the street and was hit by a car. Since then she has MS and they did not pay anything. We got nothing and now she has no job ... it’s very expensive.”*** —Female, Baltimore, MD
- ***“So if you take a generic your prescription it is \$25, but he takes seven and one of them is not generic because there isn’t a generic one and his doctor would probably want him to take it anyway, so it adds up.”*** —Female, Edmonton, AB
- ***“The biggest thing, about 18 years ago, I had a lot of shares of Citigroup, and they were paying like \$17,000 a year dividends. That went down to \$30.”*** —Male, Baltimore, MD

THE SURVEY QUESTION:

Have you (or your spouse/partner) experienced any of the following during retirement?



2 Parents' Experience with Shocks

FINDINGS ON PARENTS' EXPERIENCE

In the survey, retirees were asked whether their parents had experienced various shocks and unexpected expenses in retirement.

Notably, retirees were more likely to say their parents suffered an illness or disability (56%), suffered a loss of capacity (24%) requiring someone outside the household to manage their money, or went on Medicaid (23%). By comparison, when speaking about themselves, only 15% of the retirees said they suffered an illness/disability, had a loss of capacity (1%), or went on Medicaid (14%).

On the flip side, regarding experiencing major home repairs/upgrades in retirement and major dental expenses in retirement, only 8% of the retirees reported that their parents dealt with the home repair shocks, and only 9% said their parents experienced major dental expenses. But when commenting on themselves, a noticeably higher percentage of retirees said they experienced both shocks: major home repairs/upgrades (28%) and major dental expenses (24%).

DISCUSSION

The research found three types of shock experiences that retirees reported their parents were more likely to encounter. These areas were illness and disability, incapacity, and going on Medicaid. The shock experiences the retirees reported were most likely influenced by reflecting on the entirety of their parents' retirement.

The findings show various shock experiences that many may encounter in the future. It is not uncommon to underestimate the likelihood that such events may happen. But as retirees live longer, it is more likely they may encounter them.

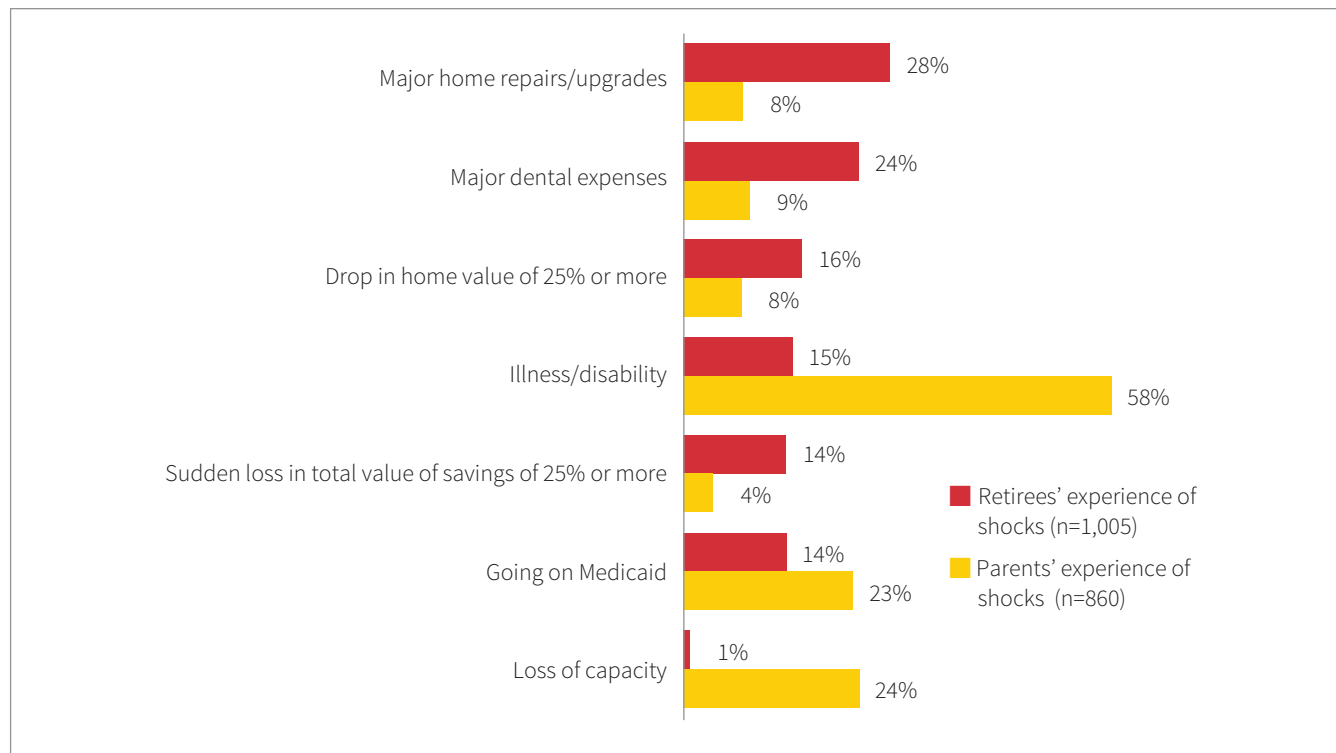
In assessing expenses, it was observed that current retirees reported experiencing home repair and dental events more often than their parents experienced these events. This may be because parents did not mention these events to their children. However, retirees were more likely to be aware of illness and care events. This is probably because the parents were more likely to tell the family, and the children may have provided support.

IN-DEPTH INTERVIEWS QUOTES

- ***"About \$3,200 for the basic rent and the assisted living, not counting meds and things. ... Then there were of course many other ordinary expenses, hairdo and all that stuff."***—Male assisting mother in the United States
- ***"He would get up in the middle of the night to go to the bathroom, fall on the floor, flail around, get panicky, hurt her [his spouse] when she would try to pick him up or try to help him get up."***—Female assisting father in the United States

THE SURVEY QUESTION:

Have you (or your spouse/partner) experienced any of the following during retirement?/To the best of your knowledge, did either of your parents experience any of the following during retirement?



3 Number of Shocks Experienced

FINDINGS ON NUMBER OF SHOCK TYPES

While almost 28% of retirees reported that they had not experienced any shocks or unexpected expenses so far, 13% said they had encountered three.

In addition, 19% said they had encountered four or more shocks in retirement. This includes 24% of retired widows who said they had encountered four or more.

DISCUSSION

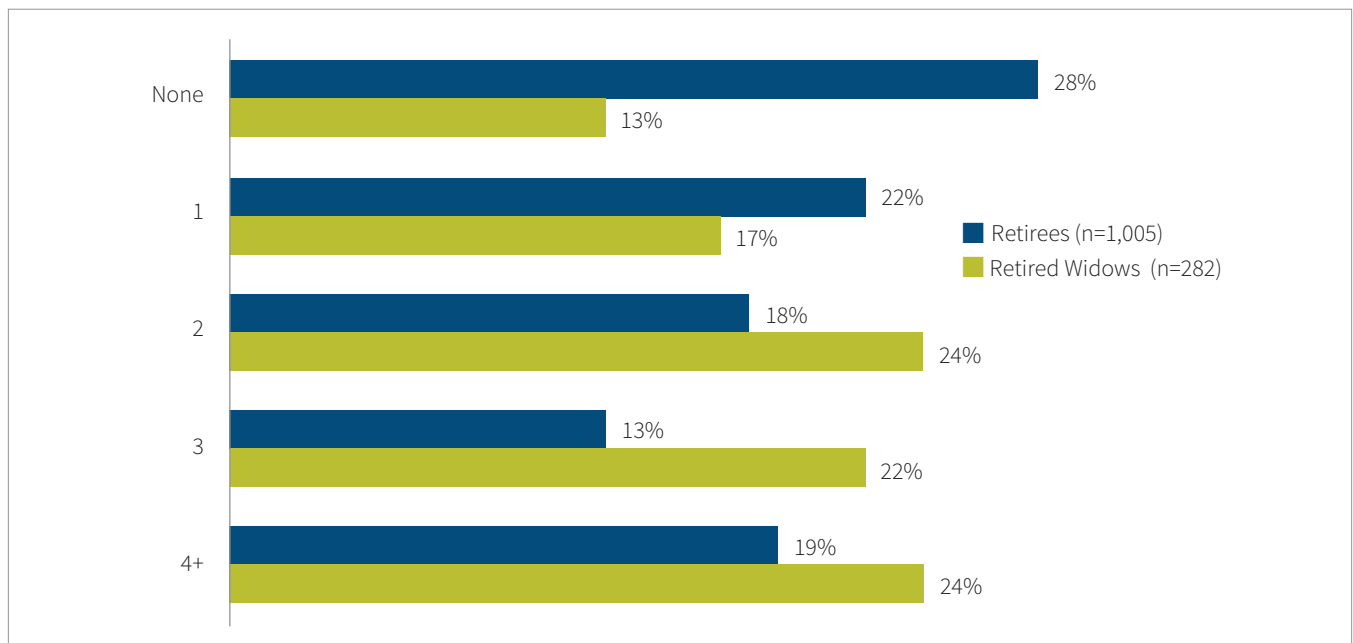
In planning the study, the project team felt that it was important not only to know if people had experienced a particular shock, but also to know how many. The rationale for this was that families who could well handle one or two shocks might find it increasingly difficult to handle each additional shock. It is not unusual to experience multiple shocks.

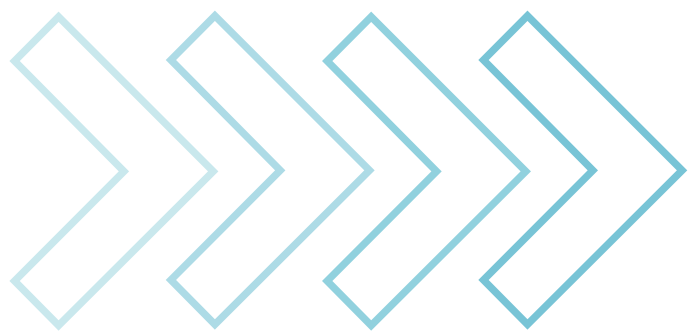
FOCUS GROUP QUOTES

- *“I have a daughter that is not as productive as she should be. Her job isn’t giving her enough income, and it is continual handing out. I have given to my son, because his medical bills were bizarre.”* —Female, Chicago, IL
- *“My son has a daughter with this lady, so we’ve had to step in and help her just putting food on the table and that sort of stuff. We pay his child support some months. Had to step in and help in that way.”* —Male, in Dallas, TX

THE SURVEY QUERY:

Number of Shocks/Unexpected Expenses Experienced in Retirement





4 Shocks Can and Do Deplete Retiree Asset Levels

FINDINGS ON ASSET LEVEL DEPLETION IN RETIREMENT

About one-quarter of retirees said they found that their asset levels were severely depleted by the shocks they encountered. Most retirees who had experienced a shock or unexpected expense said the asset level reduction was less than 25%.

However, more than 20% of the retirees said they experienced a significant reduction, with a loss of 50% or more in their asset level.

Those reporting that they had suffered three or more types of shocks were especially likely to report a significant decrease in asset levels, as were those with an annual household income of below \$35,000.

DISCUSSION

The quotes below document the major depletion of assets that occurred when the retiree needed long-term care for a longer period and the family was unable to provide it. We do not know to what extent major asset reduction levels resulted from multiple shocks, such as paid long-term-care expenses, fraud, spending decisions, declines in home values, investment losses or other causes.

The focus groups indicated that many people were frugal in their spending. However, one person reported large gambling losses; this is a reminder that individual behavior is also an important factor in assessing how depletion of assets occurs in retirement.

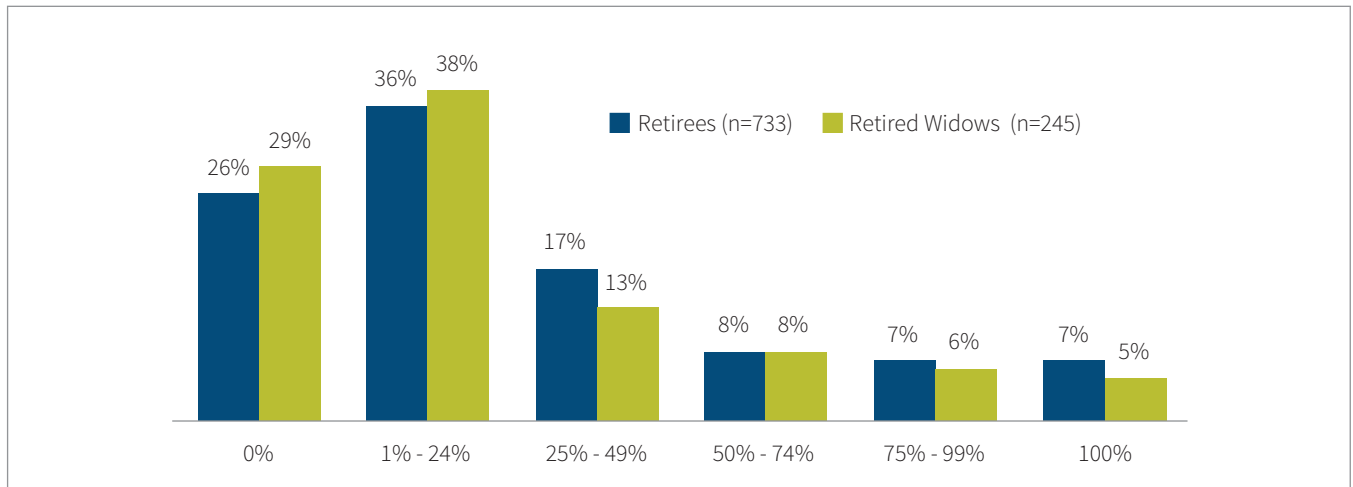
An area for further study would be the interaction of different forces affecting people who have experienced large declines in assets in the retirement years. Economists' studies using the Health and Retirement Study (a federally funded longitudinal study of aging in America) have found some enlightening details here. They found that when an elderly household goes from two people to one person, it is not unusual for assets to decline. In addition, on average, households that do not change size tend to maintain assets at about the same level from one iteration of the study to the next. Of course, this includes people with asset increases and those with declines. (See "What Determines End of Life Assets? A Retrospective View" by James Poterba, Steven Venti, and David A. Wise.)

FOCUS GROUP/IN-DEPTH INTERVIEW QUOTES

- ***"We had maybe \$60,000 or \$70,000 in Fidelity, and we had maybe \$10,000 in a savings account that was going to be fun money for us. We had to spend all that."***—Female assisting husband in the United States
- ***"Initially she had quite a lot of money saved. There was no problem. About \$400,000 not counting the house. [And now] Maybe \$20,000."***—Female assisting mother in Canada
- ***"I have had to pull money out of savings for sometimes if you fix the air conditioner or something big goes out."***—Female, Dallas, TX

THE SURVEY QUESTION:

By approximately how much, if at all, did these events reduce your level of assets? (excludes those who have not experienced any shocks)



5 Shocks Also Impact Retiree Spending

FINDINGS ON THE IMPACT OF SHOCKS ON SPENDING

Six in 10 retirees who said they had experienced shocks reported some reduction in spending as a result.

Four in 10 retirees reported that the amount of money they could spend dropped by at least 10%. That includes 14% who reported a reduction in their spending of 50% or more as a result of shocks they experienced in retirement. However, four in 10 indicated that the shocks they had encountered so far in their retirement years have not affected the amount they were able to spend each month.

Again, those reporting they had suffered three or more types of shocks and those with annual household income below \$35,000 were especially likely to report a significant decrease in spending power.

DISCUSSION

A number of the focus group participants reported frugality being very important in spending during retirement, and especially if a shock or unexpected expense has occurred.

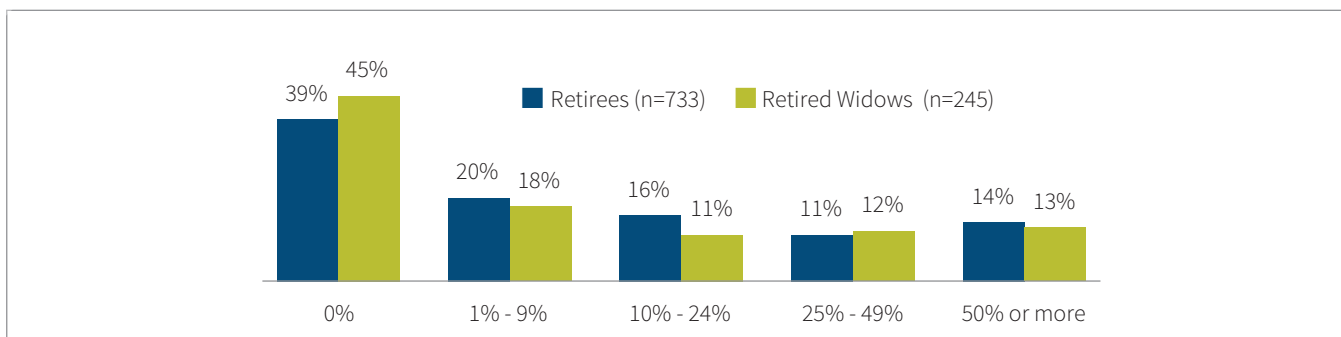
Many retirees seemed very well able to reduce spending and were quite comfortable doing so. However, some retirees reported shifting their spending to what they need versus what they want. Ways that retirees said they reduced spending include shopping more carefully for food, buying less of many things, shopping at thrift stores and garage sales, downsizing, seeking less costly travel options, using early bird specials if they eat out and choosing less expensive places.

FOCUS GROUP QUOTES

- *"In 2013 I got colon cancer. I was diagnosed as stage three. Went through a year, started doing chemo and all that kind of junk. Apparently I'm okay now. I haven't had any problems, but that wiped me out. The medical cost and stuff like that was unreal. I've had to spend ... \$3,900 had to come out right off the top."*—Male, Dallas, TX
- *"Well, it's not so much unexpected, but substantial dental that. ... I mean, you start to get into thousands of dollars sometimes and no insurance."*—Female, Chicago, IL
- *"It [the divorce] curtailed my traveling because it took a long time. Five, six, seven years almost before it finalized. So it was a real drain."*—Male, Kitchener, ON

THE SURVEY QUESTION:

By approximately how much, if at all, did these events reduce the amount of money you (and your spouse/partner) are able to spend each month? (excludes those who have not experienced any shocks)



6 Retirees Are Managing Despite Shocks

FINDINGS ON MANAGING DESPITE SHOCKS

The large majority of retirees who said they had to reduce their spending as a result of shocks indicated that they have learned to manage within their new financial constraints. This points to a pronounced resilience of retirees who are faced with such difficulties.

In total, 17% said they are managing very well, and 58% said they are managing somewhat well within the constraints, making for three-fourths of the surveyed retirees overall.

Only one-quarter say they have not been able to manage well. Not surprisingly, those with an annual household income below \$35,000 or who have experienced three or more types of shocks are less likely to be able to manage well within their new financial constraints.

DISCUSSION

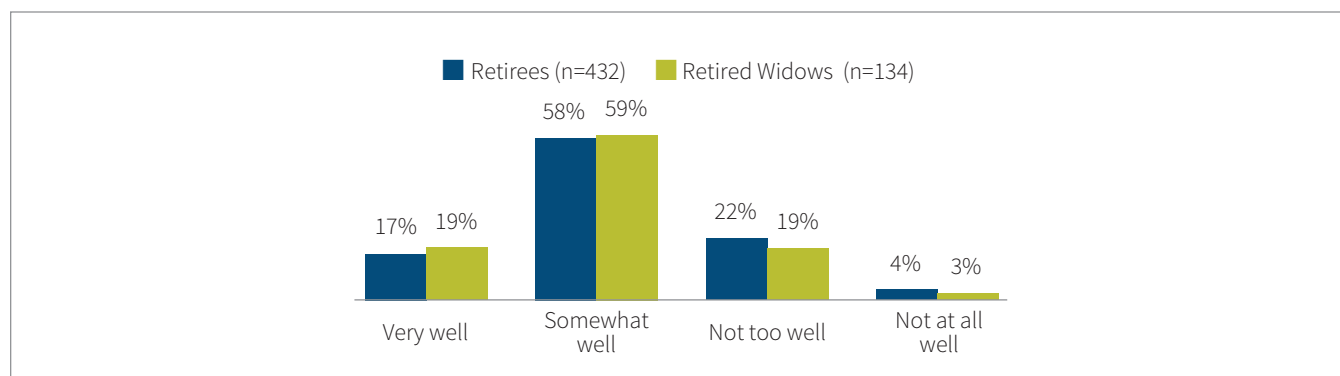
The resilience of retirees was a major finding of both the 2015 and 2013 focus groups. The survey has added to those findings by directly asking people whether they were able to manage. Retiree resilience is a very encouraging finding. The resilience may help explain why most retirees in the focus groups seem pretty well satisfied even if they had to make substantial adjustments.

FOCUS GROUP QUOTES

- ***“You can do a lot of things that don’t cost money, so you have to just spend more time on research and look for the specials in the stores. You can still eat well, just not as much.”*** —Female, Edmonton, AB
- ***“Well, it makes you feel comfortable if you know you can kind of stay at the same level. I don’t want it to decrease tremendously, because then that might affect my lifestyle. With interest rates falling, declines, etc., etc., I feel like maybe you might have to tighten the belt if it gets below the point.”*** —Female, Chicago, IL
- ***“I had to replace my air conditioning this year, the dishwasher. But, I think the prices were pretty competitive if you shopped around and the prices varied for the same product.”*** —Male, Dallas, TX

THE SURVEY QUESTION:

How well have you been able to manage within these new financial constraints? (among those who have reduced spending as a result of shocks)



7 Little Advance Planning for Shocks

FINDINGS ON ADVANCE PLANNING

Six in 10 retirees indicated they did not believe there is anything they could have done ahead of time to limit the financial impact of the shocks they experienced in retirement. Only a handful, 8%, strongly agreed that there was something they could have done, although 30% somewhat agreed that they could have done so.

DISCUSSION

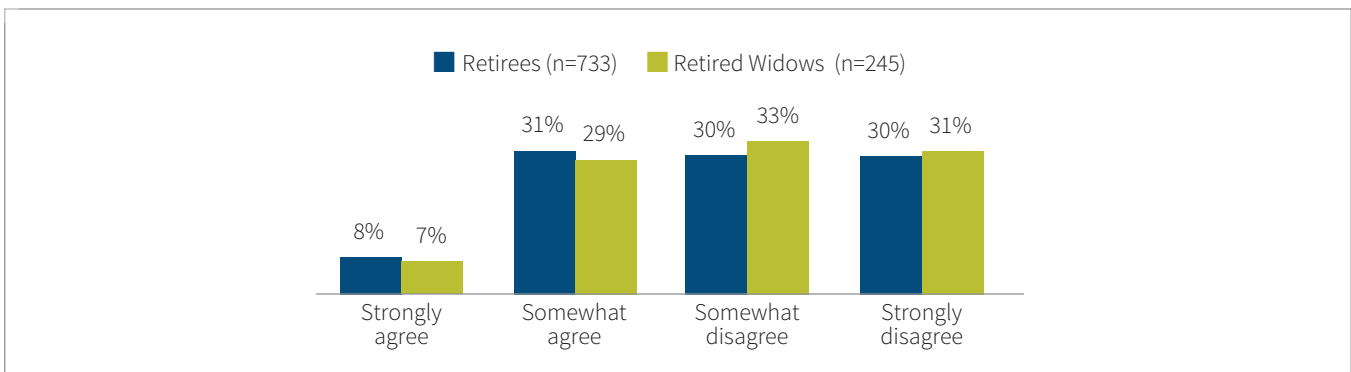
This is an interesting finding. It seems consistent with the relatively low interest the survey found in retirees buying risk protection products. It also indicates a lack of thinking about alternative financial planning methods so that money is set aside in some sort of fund for home repairs, dental and similar expenses. That would not remove the expense but rather it would shift it from being unexpected to being something that was planned for. Lifestyle adjustments could be made sooner if using a more planned approach to unexpected expenses.

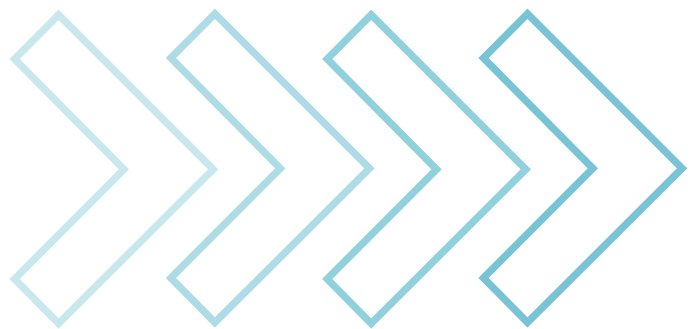
FOCUS GROUP QUOTES

- *“We have a budget, but we spend money like crazy. We are very flexible. That’s one of the reasons I am going to run out money, because I am spending it too fast. But, I’m enjoying it. That’s the main thing.”* —Male, Dallas, TX
- *“I’ve got a tight budget, but if I need to spend something I’ve got no option in many cases. If your air conditioner goes you got to spend \$7,000 or \$8,000.”* —Male, Dallas, TX

THE SURVEY QUESTION:

To what extent do you agree or disagree that there was something you could have done ahead of time to lessen the financial impact of these events? (excludes those who have not experienced any shocks)





8 Few Did Planning for a Spouse's Possible Death

FINDINGS ON PLANNING FOR POSSIBLE DEATH

While a majority of retired widows (66%) at least considered how they would respond in the event of their spouse's death, only 34% said they planned with their spouse for that possibility.

But nearly three in 10 of the widows (28%) did not consider it at all. If this group is combined with the 34% of widows who said they considered planning but did not make plans, the total shows that more than half—62%—did no advance planning in this area.

DISCUSSION

It is common knowledge that the prospect of widowhood is not something many couples like to discuss let alone to plan for. In view of that, the positive part of the survey is that more than half of the surviving retired widows said that they and their spouses did at least consider making such plans.

However, in breaking down the data, we see that only 38 of the widows reported that they considered and made such plans. This left 62% of the survey group with no plan in place when the spouse died.

Planning better for widowhood is a major area of opportunity for couples and for those who are endeavoring to help people build a more secure retirement. Such planning can consider a variety of different issues including having adequate financial resources, the suitability of housing, a support network, etc.

Some people experience marked declines in income and assets at widowhood but others do not. If assets are left to the surviving spouse, then the assets are available for use by one person instead of two. But in other households, major drops in income occur after the first death occurs. If the deceased spouse had been in decline or sick for a long time, then the household assets may have been reduced during the caretaking period. The result is that, although the survivor is no longer needed as a caregiver, the survivor has reduced resources available to support her or his remaining years.

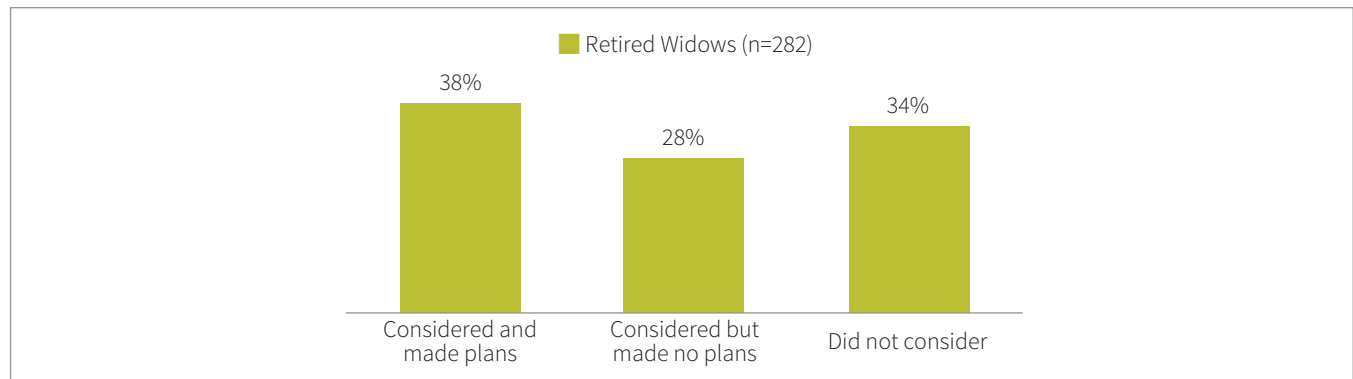
In thinking about this, retirement professionals may find it important to consider some of the related findings from the focus groups. Groups were conducted among people who had experienced a marital change since retirement versus those who had not. The focus group results did not show marked differences between the groups, but they did show that people who divorced after retirement were often having a difficult time. These studies did not focus on second marriage and blended family issues, so this is a likely area for further research.

FOCUS GROUP QUOTES

- *“Financially it [the husband’s death] made half of the pension come in. With Social Security, he was making maximum and I had \$800 a month. When he died, they put it together and I get the max. So I lost on Social Security, and I lost half of his pension. So yeah, that made a difference. I didn’t starve to death, but it did make a dent.”* —Female, Chicago, IL
- *“If she [wife] passed away today I would be up the creek without a paddle. ... I have no idea how much money we’ve got. I don’t know where it is.”* —Male, Dallas, TX
- *“When my husband passed away, I lost his Social Security. I got part of it, but being one person rather than two, it’s okay for me. ... Like I said, I am not rich, and I’m frugal too.”* —Female, Chicago, IL

THE SURVEY QUESTION:

Did you and your spouse consider and plan for how you would respond if you lost your spouse? (if retired widow)



9 Retirees Think Parents Adjusted Well to Shocks

FINDINGS ON PARENTS ADJUSTING TO SHOCKS

Four in 10 pre-retirees and retirees said they feel their parents adjusted very well to the shocks and unexpected expenses they experienced. In addition, 43% of pre-retirees and 48% of retirees said their parents adjusted somewhat well. Just 15% of pre-retirees and 11% of retirees reported that their parents did not adjust well.

DISCUSSION

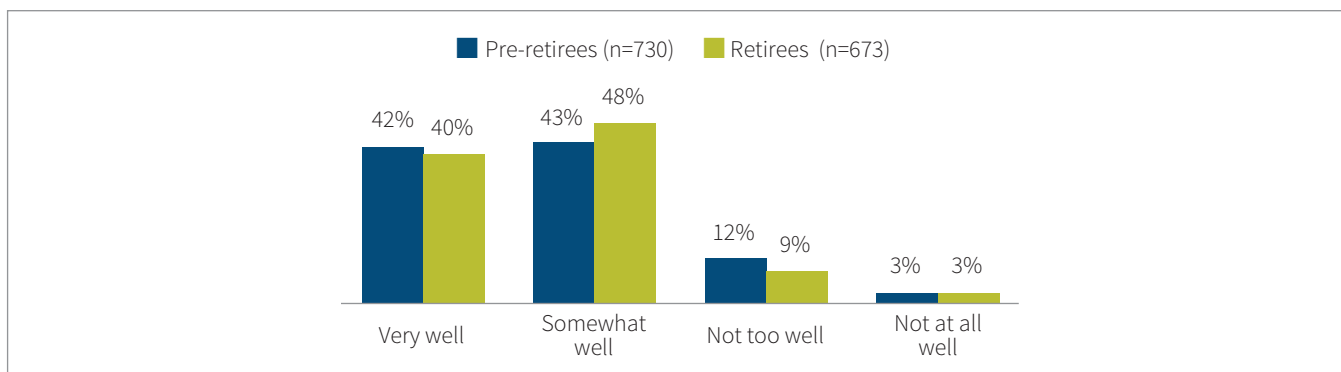
These results show that retirees also see their parents as resilient, thus reinforcing the findings of resiliency. It seems very likely that parents serve as a model or warning for their children, and many retirees learn about retirement by looking to how it worked out for their parents. The 2015 research explored this issue for the first time.

IN-DEPTH INTERVIEW QUOTES

- *“She still makes her own decisions, but she does listen to me. She pretty much discusses everything with me, but the ultimate decision is hers. So I am not making her decision for her, but I am providing some guidance and information for her.”* —Woman assisting mother in Canada
- *“We are not using it to finance her care at the moment. ... But, at some point, if her money runs out, that would be the next thing, is we would sell her house. But we haven’t had to do that yet.”* —Woman assisting mother in Canada

THE SURVEY QUESTION:

Overall, how well do you think your parents adjusted financially to these [shocks and unexpected expenses] during retirement? (among those reporting their parents experienced one or more type of shock or unexpected expense in retirement)



10 Parents' Retirement Experience Spurs Concern

FINDINGS ON CONCERNS BASED ON PARENTS

Among both pre-retirees and retirees whose parents lived into retirement, a greater percentage indicated that their parents' experiences in retirement made them more concerned about their own financial security in retirement than those saying it made them less concerned.

Specifically, 46% of pre-retirees and 42% of retirees said their parents' experience made them much more or somewhat more concerned, while 10% and 8%, respectively, said their parents' experience made them somewhat less or much less concerned.

Nevertheless, 50% of retirees and 44% of pre-retirees said that observing their parents in retirement has not affected their concern about their own financial security in retirement.

DISCUSSION

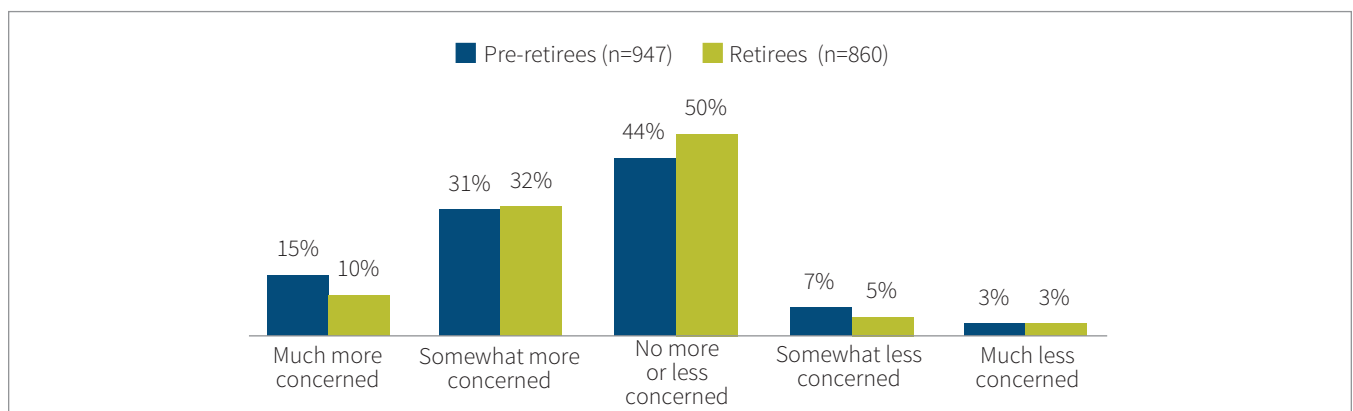
The survey has opened up exploration of the issue of learning from parents' experience. The findings show the group was split with regard to whether watching their parents made them more or less concerned. Parents' and neighbors' experiences offer a reality to people very different from abstract information and numbers.

FOCUS GROUP QUOTES

- *"I watched my mother in extended care and I got lots of bills. It was the worst three years I've ever been through in my life and the money, jeepers. ... You can't buy anything once you get to that point."* —Female, Edmonton, AB
- *"My mother saved her money. I mean, she nicked and dined her way. She had left money for my sister and I that we really didn't need that she could have used."* —Female, Dallas, TX

THE SURVEY QUESTION:

On the whole do you think your parents' experiences made you more or less concerned about your financial security in retirement?
(among those whose parents lived into retirement)



11 Increased Concern Impacts Retiree Planning

FINDINGS ON IMPACT OF INCREASED CONCERN ON PLANNING

Among pre-retirees and retirees who are more concerned about their financial security in retirement due to their parents' experiences, the large majority (84% and 78%, respectively) said those experiences did impact their own preparations for retirement either a great deal or some. Only about 20% indicated that their parents' experiences have influenced their planning only a little or not at all.

DISCUSSION

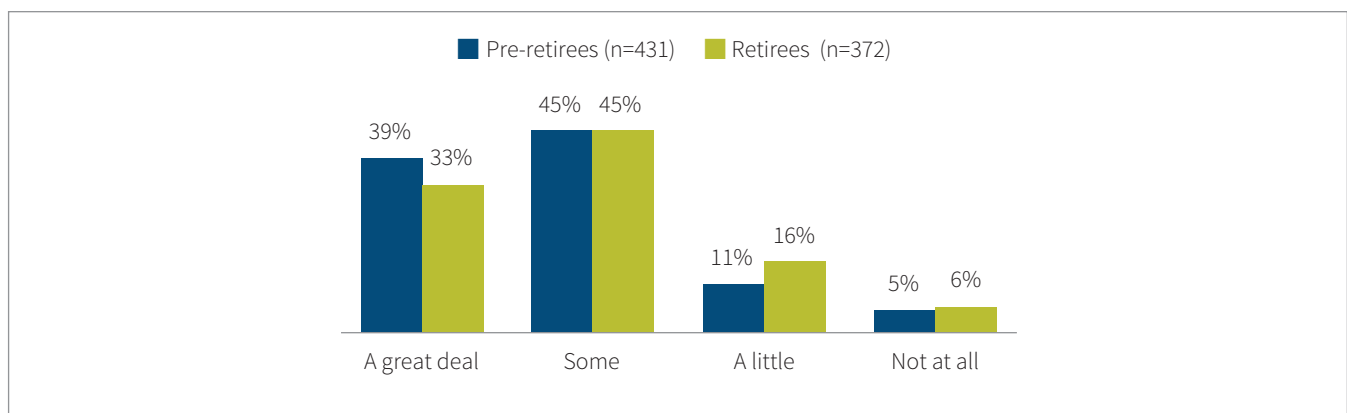
This is a positive finding and it reinforces the value of storytelling.

FOCUS GROUP QUOTES

- *"A few years back like when my dad retired, he didn't have any retirement. He had Social Security and that was it. That wasn't something for me to look to and say that's what I want to do. If I can't do any better than that, then I better start working harder today."* —Male, Dallas, TX
- *"My father passed away fairly early, but my mom retired and the one thing that we learned from her and from my husband's parents is pay everything off and whatever you buy, buy it with cash and that way you don't owe anything. It was just like your utilities."* —Female, Dallas, TX
- *"I want to make sure I leave my children an inheritance like my father did for me."* —Female, Baltimore, MD

THE SURVEY QUESTION:

To what extent, if at all, do you think your parents' experiences (have influenced how you plan or prepare/influenced how you planned or prepared) for your own retirement? (among those more concerned about financial security in retirement due to parents' experience)



Related Research

The study of shocks and unexpected expenses in retirement is an emerging field of study, with the result that other significant research is beginning to surface. Following are some key contributions.

Findings from the “How Americans Manage Their Finances Study”

In 2015 the Center for Economic and Social Research and the University of Southern California partnered with the Society of Actuaries (SOA) on the study [How Americans Manage Their Finances Study \(Managing Finances Study\)](#). Authored by Leandro Carvalho, Arie Kapteyn and Htay-Way Saw, this research provides insight into many financial issues experienced by American adults. These issues include expenses causing financial stress as well as debt and the ability of Americans to pay unexpected expenses at various levels. The results are separated by age but not by retirement status.

Salient findings from this research supplement and help inform the SOA’s 2015 Retirement Risks and the Process of Retirement Survey (the SOA’s 2015 Survey). Highlights follow.

Financial stress: The Managing Finances Study shows that the top three issues American adults said caused major financial

stress in their households during the last three years were losing a job or having work hours and/or income reduced (21%), having a significant health issue (12%), and providing help to family members or family member losing job (8%).

The next two issues they named were getting separated or divorced (4%) and having unpaid taxes (4%). This was out of a total of 13 specific reasons plus an “other” category (8%). Eight specific reasons that drew a response of less than 4% produced a total of 11%. More than half, 56%, said that they had no major financial stress. (See table below.) The numbers add up to more than 100%, since individuals may have experienced more than one financial stress.

Perspective on financial stressors: The respondents were likely influenced by both their overall financial picture and the event. The same event will cause stress in one household but not in another.

What was the cause of any financial stress your household had in the last three years?

Selected Results

Cause	Age Range					
	18–39	40–49	50–59	60–69	70+	All
<i>We experienced no major financial stress</i>	51%	51%	55%	67%	72%	56%
<i>Loss of job or having work hours and/or income reduced</i>	28	23	21	11	0	21
<i>Having a significant health issue</i>	12	16	13	12	8	12
<i>Providing help to family member(s) or family member losing job</i>	8	9	10	8	6	8
<i>Getting separated or divorced</i>	5	6	2	0	0	4
<i>Having unpaid taxes</i>	3	5	6	3	3	4
<i>Having mortgage balance higher than property value</i>	3	6	5	1	0	3

Source: How Americans Manage Their Finances Study Data extracted from Table 71.

Note: The “other” category and a variety of causes for which there was less than a 3% response are not shown in this table but do appear in the report.

What did you do as a response to the financial stress that your household experienced?

Responses	Age Range					
	18–39	40–49	50–59	60–69	70+	All
Get help from others	28%	26%	22%	19%	19%	25%
Borrowed money using credit card	11	14	12	18	9	13
Borrowed using payday lending	6	10	1	8	1	6
Mortgaged home or increased mortgage on home	2	3	2	7	0	3
Borrowed from bank	7	4	3	5	0	5
Withdrew from savings	24	28	38	32	30	29
Cut expenses	55	60	59	50	21	54
Negotiated debt	13	10	8	10	11	11
Did not pay expenses that we owed	19	16	12	15	1	15
Other	11	10	19	22	18	14

Source: How Americans Manage Their Finances Study, Table 72.

We note that the list of stressors did not mention major home repairs. As a point of comparison, in the SOA’s focus groups of longer-term retirees, the expense that people who have been retired for more than 15 years most often brought up was home repairs.

It is of course no surprise that filing for bankruptcy and receiving a mortgage foreclosure notice are both very difficult events for people to undergo. In both the 2015 SOA Survey and the Managing Finances study, relatively few people responded that they had experienced either of these. Also, problems with debt can be a major problem even without bankruptcy, but these results do not provide evidence about how common that is.

This study shows that getting separated or divorced was a problem for 4% of the sample overall but for very few people over age 60. The SOA study, on the other hand, found that for people who were retired 15 years or more and who had been divorced after retirement, divorce was a major problem and one from which it was difficult for them to recover. In many cases, divorce will mean splitting of assets.

The table on page 25 shows the stressors that people said they have experienced, by age range:

Responses to stress: The Managing Finances Study also provides information about what American adults did in response to the financial stress they experienced. Clearly, the respondents used multiple responses. (see table above)

The most common response, at 54%, was to cut expenses. The next most common response, and the most common response for those over age 70, was to withdraw funds from savings (29%). The third most common response was to get help from others. Several methods of borrowing were listed, and when combined, borrowing was also a common response, but it was used less by those over age 70.

Perspective on responses to stress: To put these results in perspective, it is interesting to look at what amounts respondents said they could pay in the event of unexpected expense. The Managing Finances Study explored how difficult it would be to have an unexpected expense of \$500, \$1,000, \$5,000 or

\$10,000 (see table below). It found that 31% of the surveyed Americans could not easily pay for even a \$500 unexpected expense, and 70% could not easily pay for a \$1,000 unexpected expense. This indicates quite a severe problem for many households.

The study shows that older respondents, such as those age 70 and over in the table at the bottom of the page, are better

equipped to deal with these expenses than respondents at all ages. When considered together with the information on shocks (discussed in the SOA's 2015 Survey), this information provides insight about the size of an unexpected expense that will cause a major problem. It also offers insights as to why multiple shocks are a bigger problem.

Percentage of respondents (at all ages) who best describe how hard it would be to pay for an unexpected expense of various amounts

Difficulty Assessment	Expense Amount			
	\$500	\$1,000	\$5,000	\$10,000
I could easily pay for this expense	69%	30%	13%	10%
I could pay for this expense but it would involve some sacrifices	17	47	20	11
I would have to do something drastic to pay for this expense	5	10	44	14
I don't think I could pay for this expense	9	13	23	70

Source: How Americans Manage Their Finances Study, Tables 82, 84, 86, and 88.

Note: Number may not add to 100% exactly due to rounding

Percentage of respondents (at age 70 and over) who best describe how hard it would be to pay for an unexpected expense of various amounts

Difficulty Assessment	Expense Amount			
	\$500	\$1,000	\$5,000	\$10,000
I could easily pay for this expense	85%	49%	25%	23%
I could pay for this expense but it would involve some sacrifices	8	38	30	14
I would have to do something drastic to pay for this expense	2	5	37	17
I don't think I could pay for this expense	4	8	9	46

Source: How Americans Manage Their Finances Study, Tables 82, 84, 86 and 88.

Note: Numbers may not add to 100% exactly due to rounding.

Other Research Related to Shocks: Retirement Benefit Adequacy Study

The [*Measures of Retirement Benefit Adequacy*](#) study published by the Society of Actuaries in 2013 helps provide some perspective on the shock experiences that people go through in the retirement years. Authored by Vickie Bajtelsmit, Anna Rappaport and LeAndra Foster, the report on this study focuses on measuring retirement benefit adequacy in light of both expected and unexpected expenses in retirement. The study models the needs of typical individuals and considers the needs and objectives of different stakeholder groups.

To investigate the impact of various risks on retiree welfare, the researchers developed a simulation model of retirement spending, incorporating standard-of-living goals as well as investment, inflation, life, health and long-term-care risks, with distributional assumptions for each random variable. This is unusual in that it more realistically considers the combined impact of many of the risk factors faced by retirees and works the effect of shocks into the results.

The key findings related to shocks include the following:

- *The need to recognize shock events.* While it is much easier to plan for expected events, so-called “shock events” must be taken into consideration since they are more likely to derail an individual’s retirement plan. This is especially the case for people at the lower income levels. For median income individuals, shocks are the biggest driver of asset depletion.
- *Averages can be misleading.* The risk is that averages can disguise the impact of shock events. The best strategies to preserve assets without shocks may not be the best strategies once shock events are considered. Making retirement decisions based on averages increases the risk of running out of money. For example, the level of retirement wealth necessary to be 95% confident of having sufficient funds to meet all cash flow needs is much higher than what is needed *on average*. These extreme differences are largely driven by shocks and variations in investment returns.
- *Profile of the median income household.* The median American married couple at retirement earns approximately \$60,000 a year and has approximately \$100,000 in nonhousing wealth (based on the Federal Reserve’s 2010 Survey of Consumer Finances, adjusted for wage inflation and recent market performance).
- *Wealth levels may be insufficient at median and lower income households.* The model shows there is a 29% chance that median income households (having \$100,000 in nonhousing wealth at retirement) will have positive wealth at death. However, it also shows that the assets these families will require to meet cash flow needs 50% of the time would be approximately \$170,000 compared to approximately \$686,000 for a 95% success rate. (See Table 10 in the Measures of Benefit Adequacy Report, which also shows results for two additional income levels and two wealth levels for each.)
- *Oversimplifying the planning is risky.* There is no “one-size-fits-all” measure of benefit adequacy, and there are many “moving parts” depending on the purpose and the stakeholder using the model. Individuals need to be aware that attempts to oversimplify the retirement planning process can be very dangerous when making personal financial decisions.
- *Try to quantify various possible shocks.* It is important to consider and—to the extent possible—to quantify the potential impact of shocks such as long-term care. Low-frequency, high-severity risks can result in income inadequacy, particularly at lower and middle income levels. This makes it more important to consider ways of mitigating the risk at those income levels.
- *Standard of living may drop.* Many of the next generation of retirees may be facing a big drop in their standard of living when they retire.

- *Appropriate measure of adequacy.* The most appropriate measure of retirement benefit adequacy depends on the stakeholder: plan sponsor/employer; financial planner/individual; public policymaker; or financial institution.
- *Planning needs to continue.* Retirement planning needs to continue after retirement as situations change. Individuals could also benefit from taking should also take a “holistic” approach that incorporates the interactions between various decisions and events.
- *Impact of reducing spending varies.* Moderate and higher income households can successfully retire with 20% less savings if they are willing to cut their budgets by 15%. Reduced spending does not significantly reduce the impact of depleting assets for the median income family because, in this demographic, shocks are the major driver of asset depletion.
- *Multiple uses.* A variety of stakeholders can use this information. Policymakers can use it to understand population needs and relative importance of alternative policy options. Employers can use it to help them in planning benefit programs and communication. Markets can use this information to tailor their products to better meet needs, particularly where protection against long-term-care risk is concerned due to the great need there.

The Measures of Retirement Benefit Adequacy report also includes a conceptual discussion of benefit adequacy and the various ways it has been and can be measured. Adequacy measures examined include replacement ratios, projected expenditures and minimum societal standards. Both income needs and lump sum equivalents are considered. Different measures are better suited to the needs of different stakeholders and at different life stages. Unless insurance is purchased for a risk such as long-term care, these adequacy standards do not manage shocks very well.

Perspectives

Long-Term Care and Shocks

By John Cutler

I am pleased to be able to add to the Special Topic Report on Shocks and Unexpected Expenses in Retirement where it relates to long-term care. Conceptually, we view long-term care as an event that will happen to about 70% of seniors. Not all of these events will be of long duration. I've come to the conclusion that about a third of people won't have any long-term care at all and another third will be able to handle it (mostly because the long-term-care event will be of short duration or not expensive for other reasons, for instance, a family member providing uncompensated care). But that means another third of the population *will* have a long-term-care experience of substantial proportions.

As mentioned in the report, this study includes pre-retirees and retirees at all income levels for Americans overall ages 45 to 80. The low end of that age range is what many consider the starting point for individuals beginning to plan for long-term care, when kids are out of college and one's economic picture looks less murky.

Reading this report, though, is enlightening in seeing proof, yet again, why getting people to focus on this risk is so difficult. For instance, when respondents were asked about financial shocks and unexpected expenses, the two most frequently mentioned items were home repairs (28%) and dental expenses (24%), followed closely by significant out-of-pocket medical and prescription expenses (20%). Where is long-term care in this picture if, indeed, about a third would face that eventuality to a serious degree and even more if you were to count any long-term-care event?

The SOA's 2015 Survey does reveal that while retirees were able to make adjustments and deal with unexpected expenses in a number of areas that did not include major long-term-care events or divorce after retirement, both of these shocks had a major impact. Perhaps while long-term-care insurance would help some families, its relative expense, for those with modest means, keeps those people from planning. Others, though, simply choose to take the risk. (Compare this with Medicare supplement coverage where maybe as many as three in four seniors have such protec-

tion. Why do people cover a supplemental health insurance risk yet not a full risk situation such as long-term care?)

One interesting aspect for long-term care is the survey's questions on the importance of the experience of parents. It is a mantra in the long-term-care insurance world—and perhaps with policy folks and advocates who deal with long-term-care services and supports more broadly—that people who have seen their parents grappling with long-term care (and the costs associated with it) are more likely to act in some manner.

The survey research shows three areas where retired respondents reported that their parents were more likely to have had the care experience versus the retiree's own experience: illness and disability, incapacity, and going on Medicaid. A very illuminating graph in the report is the one with the question, *"Have you (or your spouse/partner) experienced any of the following during retirement? To the best of your knowledge, did either of your parents experience any of the following during retirement?"* Even if the interviewee had not had the problem, their parents may well have. About half of the retirees and four in 10 of the pre-retirees indicated they believe observing their parents in retirement has not affected their level of concern. In other words, the group was split with regard to whether watching their parents made them more or less concerned.

To be fair, among interviewees who expressed more concern about their retirement due to their parents' experiences, the large majority reported those experiences have impacted their own preparations for retirement either a great deal or some. (Only about two in 10 indicated their parents' experiences have influenced their planning only a little or not at all.) But what exactly did they do when they say they are more concerned? Did they do anything other than fret? That would be a good area to follow up.

Another interesting question revolves around how retirees balance their living expenses when coping with a crisis. The report

shows that about six in 10 retirees who have experienced shocks report some reduction in spending as a result. While this frugality is good, that is, many retirees seem able and willing to reduce spending, what we don't know is whether that might include lapsing long-term-care insurance (if they have it).

Another interesting finding is that most interviewees (six in 10) did not think they could have done anything to avoid the shock(s). So why plan if that's your thought process? As noted in the introductory piece, this is an interesting finding. It seems consistent with relatively low interest in buying risk protection products. It also indicates a lack of thinking about alternative financial planning methods, for instance setting aside some sort of fund. That would not remove the expense, but at least it would shift it from being unexpected to being something that was planned.

Dealing with Financial Shocks

By Paula Hogan and Rick Miller

The research by the Society of Actuaries Committee on Post Retirement Needs and Risks on Shocks and Unexpected Expenses in Retirement offers valuable insights into events that can threaten retirement success. As advisers, we find the data-driven approach in the research compelling. We see similar patterns in our daily work with retired clients: Financial shocks are common; retirees show strong resiliency to such shocks; and the experience of multiple financial shocks is hard.

The study reports that fewer than 30% of all retirees and fewer than 15% of widowed retirees have suffered no financial shocks at all. Nearly 20% of all retirees and 25% of widowed retirees have suffered four or more financial shocks. More than 50% of those who suffered financial shocks had to reduce their monthly spending, and fewer than 20% of those say they are managing very well.

We have several reactions.

Most of the financial shocks retirees describe are cash flow shocks.

Retirees describe having their daily cash flow “shocked” when they receive a large, unexpected bill for such expenses as a home repair or a dental bill. These expenses are typically not covered by insurance.

Many retirees have carefully matched monthly expenses to monthly income, so their net cash flow is finely balanced. An unexpected large expense disrupts this cash flow equilibrium. Their alternatives for restoring order are drawing on cash reserves, raiding the long-term investment portfolio and/or reducing spending.

Cash reserves are an important solution for cash flow “shocks.” They move cash from a time or state when you have cash to a time or state when you do not.

As advisors, we particularly like how this report illustrates that the highly personal decisions we all make about our *daily* cash flow have significant consequences for *long-term* financial security. Although you might think of financial planning as primarily concerned with portfolio management, the central focus is cash flow planning and the highly personal daily decisions you must make about how much to save and how much to spend.

The expenses the study highlights would not be “shocks” if retirees had cash reserves in place. But to have cash reserves available on the day an unexpectedly large expense occurs, you must set them aside in advance. That’s typically easier said than done.

Making trade-off decisions about spending is central to your financial planning.

Storing up cash reserves means spending less now in order to have reserves at the ready later. This is a classic financial planning trade-off decision. Do you choose having money to spend now or saving it for a rainy day?

Making trade-offs requires awareness of your options and of the consequences of each choice, all in the context of your personal values and resiliency, both personal and financial.

In fact, the central focus of financial planning is moving cash from one time (or life state) to another, from times when you have income to times when you don’t, and from when you are healthy to when you have large health care expenses.

If you are retired and have minimal cash reserves, it might be that you made a thoughtful, informed and rational decision that you’d rather scramble for cash and find a way to reduce spending upon receipt of an unexpected bill than proactively forego personal spending in order to create cash reserves. However, behavioral economists have documented some of the very human reasons why it’s so difficult to store up cash reserves. When humans make decisions, strange things happen:

1. *We don't like to think about unpleasant possibilities, and so we ... don't.*
2. *We are not skilled at thinking about things that are not certain to happen.* We round high probabilities up to certainties, and low probabilities down to “it will never happen to me.”
3. *We have a bias toward “now” versus “later” when making trade-off decisions.* It's hard to set cash aside now (and leave it set aside) for a large future potential dental bill that may never arrive. We have to compare the pain of doing without something now (to increase our cash reserves) with the anticipated future pain of scrambling to figure it out when it happens. It is human nature to more clearly picture—and thus to respond to—the “now” rather than the “later.”
4. *We all tend to be overconfident.* Note, for example, that 80% of drivers rate themselves as above average. Hmmm. To decide wisely whether and how much cash to reserve requires pondering: “Can I realistically expect to ‘figure things out’ when an unexpected large expense happens?” The study suggests that, in many cases, the answer is yes. However, for the question, “Can I expect to cope with multiple shocks?” the study is a bit more pessimistic. Multiple shocks can permanently reduce your lifetime standard of living to a (very) painful degree. It's hard to realistically imagine the possibility of multiple shocks happening to yourself. Yet multiple shocks happen.

We have learned some important lessons in our daily work with our clients as they make cash management trade-off decisions. Perhaps these insights will be helpful to you:

- *Cash reserves are a powerful planning strategy.* Many retirement spending plans assume that everything will be okay. What we see is that everything is okay—until it isn't. That's when cash reserves can help.
- *It helps to think of the full range of potential expenses you will likely face in retirement.* Are you really surprised that your

major asset—your house—will need periodic repairs, or that there might be a large dental bill in your future?

- *It's hard for any of us to accurately imagine a different state than the one we're in right now, and how we might respond to that future state.* Have you ever had trouble packing a suitcase for a trip to a place with a different climate? It can be comparably challenging to set aside cash reserves for a future time and state.
- *It's helpful to have segregated, named cash reserves that you only use when a true shock arrives.* “Envelope” book-keeping works.
- *Having more guaranteed income (Social Security, pensions, income annuities) means that your income will continue even if shocks force you to spend down your savings.*
- *As people age, having cash flow ever more automated is protective.*
- *It can be protective to have your named agents become gradually informed and on board earlier rather than later.*
- *There isn't one right answer.*

Personal resiliency can sometimes trump financial resiliency, often in delightful and inspiring ways. But not always. Cash flow shocks can also be just plain painful, and sometimes also consequential to long-term financial security. NOTE: If you are planning finances for you and your partner, not just for yourself, it's prudent to think about the resiliency of each of you, not just yourself, when you are planning how much to rely on personal resiliency versus cash reserves for handling potential future expenses.

In our experience, having cash reserves at the ready on the day you need them is extraordinarily empowering and protective.

What is your decision process for deciding how much cash to reserve for unexpected expenses?

Beyond Finance: Retirement Shocks of a Different Kind

By Sandra Timmerman

The 2015 Risks and Process of Retirement Survey from the Society of Actuaries helps us understand some of the major financial shocks—the often unexpected expenses and consequences—that people experience after they retire and how they impact their retirement expectations. While these events can derail even the best retirement plan, there are also shocks of a different kind. They are psychologically and socially based and, while subtler in nature, frequently have a negative effect on well-being and satisfaction in retirement.

Sometimes psycho-social shocks go hand in hand with financial shocks, as in the case of widowhood. Other times the shocks are essentially non-financial in nature, and might best be expressed as losses—of social status, self-esteem and functionality. Here are some examples.

- **Death of a spouse.** When a husband or wife dies, the remaining spouse is left alone. First comes grieving (for most) and then reality sets in. Social patterns of interaction change. There is no one at home to have dinner with, take the car to the repair shop with you, make decisions about life events. Couples who formerly did things together with the two spouses often forget after the first flurry of activity to include the widow now left behind. Isolation, poor nutrition and even substance abuse can occur, especially for men who generally don't have established social networks.
- **Job loss and the retirement event.** Whether workers over 50 are downsized or decide to retire, some part of them is left behind. Sooner or later, they are confronted with a new reality. Their career-oriented, productive years are basically over and they have entered a new life stage. While the stages of retirement are more fluid than they once were, the usual pattern is still the norm. We go to school, work, get married, have children, retire and die. Due to both stereotypes and realities, we have seemingly moved into the time of life that society sees as the non-productive, permanent vacation years. Accepting the idea that we are no longer “in

the game” is an adjustment. For many, the loss of the advantages of a job, such as business travel and friendships developed through work, is an unanticipated shock. While many look forward to retirement and enjoy it fully, deep down they know they are not middle-aged anymore and have moved to a new life stage.

- **Health events and chronic conditions.** Changes in physical function become more apparent in the middle years and continue into old age. At some point, we can't deny that we no longer have the stamina, strength and physicality that we did when we were younger. Our body weight shifts and we look in the mirror and see wrinkles. Where did they come from? The real shock, however, is when a medical event or a diagnosis of a chronic condition like arthritis impedes our ability to function well. There is for many a period of mourning when we recognize that we are moving into old age and may not become one of the rare 92-year-olds who are still sky-diving and running marathons. A stroke or a diagnosis of cancer or dementia is an even greater psychological game-changer. This shock impacts not only the person who is diagnosed but also the spouse, with trips to doctors replacing trips to Europe and day-to-day social patterns disrupted. It also signals a dramatic change in lifestyle that most of us haven't anticipated.
- **Family issues.** The marriage of adult children and the birth of grandchildren are usually happy occasions. The average grandparents are healthy and active, and enjoy their interactions with their grandchildren. In fact, spending time with family is ranked in several studies as a high priority for retirees. However, if there are emotional, financial or medical problems with children and grandchildren, retirees confront psychological shocks of a different order. Examples of these shocks might include a child who abuses drugs or alcohol, who can't keep a job or who goes through a messy divorce. Growing numbers of older people find themselves providing housing for their children or even

raising grandchildren just at a time when they were looking forward to retirement. Gerontologists find that satisfaction in later years is dependent on the knowledge that their children and grandchildren are secure and able to take care of themselves. The shock comes with the recognition that their offspring will need help and support, perhaps beyond their parents' lifetime.

- **Mortality and death.** The ultimate shock is the need to prepare for and face death. Adult development research finds that when we reach our 50s, we begin to shift our thinking about longevity. Life is no longer infinite with unlimited years ahead. We become even more aware of the finite nature of life as we move into our 80s and beyond. Our peers die, a signal that we are now vulnerable. Preparing legal papers for end-of-life care may seem abstract, but it is a different story when we come face to face with the finality of death. In psychologist Erik Erikson's work on developmental theory, a person at the end of life must grapple with integrity versus despair--making sense of his or her life and being at peace with it. How we will handle this shock is the ultimate question for all of us.

WHAT DOES THIS MEAN FOR FINANCIAL SERVICES?

The good news is that retirees are resilient. The SOA 2015 study found that, in terms of finances, the large majority were able and willing to adjust their spending and lifestyle as needed. In fact, they appeared to be doing better than the project team had expected.

The same might be said about psycho-social shocks. Retirees who are mentally healthy and socially connected have lived long lives with their ups and downs and can roll with the punches when unexpected events disrupt their lives. Adaptation is the key. They can let go, accept what has happened and make adjustments to change. For others, however, particularly for those with serious health problems, the adjustments are more difficult. And all of us, no matter who we are, will experience some

feelings of loss—of our youth, of our physical and mental abilities, and of our fragile mortality---as we grow older.

Financial service professionals can't be expected to serve as psychologists and counselors for their retired clients, but being aware of the non-financial shocks can create deeper empathy and understanding. Helping clients get through the adjustment stage is most important.

In the case of widowhood or loss of a job, for example, a client may be temporarily non-functional. The tendency might be to take over. However, older people fear a loss of control of their lives perhaps more than younger people. It is important to be a sounding board and to take time to listen, as well as to give financial advice, as older clients go through periods of adjustment and adapt. It might also be valuable to get to know resources in the community; for example, in the case of widows, information about support groups and home repair services could be helpful too.

Retirement has its challenges, both financially and emotionally, but it is also a time of life that offers flexibility, freedom and joy. Helping people work through not only the financial but also psycho-social shocks will result in a more holistic approach to planning,

Retirement Shocks and the Risk of Running Out of Money

By Barbara Butrica

Unexpected life changing events, such as a job loss, the onset of health problems for a family member or oneself, the loss of a spouse (due to divorce or death), or an economic downturn can occur at any point in one's lifetime. These events have been shown to have devastating effects on people's income and assets in both the short- and long-run.

Take job loss, for instance. Because of their tenure and work experience, older workers tend to experience larger earnings losses than younger workers when they lose their jobs. Couch, Jolly, & Placzek (2010), using administrative earnings data from Connecticut unemployment insurance records, find that earnings losses following displacement average 20 percent at age 40, 26 percent at age 50, and 59 percent at age 62. Moreover, studies show that older adults have more difficulty than younger adults getting rehired (Johnson & Butrica 2012; Johnson & Park 2011; Maestas & Li 2006).

Then there are the unexpected health problems that can arise. Not surprisingly, the likelihood of experiencing a health event increases with age. One study found that over a 10-year period, nearly 60 percent of adults ages 51 and older experienced a major new medical condition (cancer, stroke, heart problems, lung disease, psychiatric problems, or diabetes) or were married to someone who did (Johnson, Mermin, & Uccello 2006).

Looking into the future, over half of older Americans are expected to rely upon long-term services and supports (Favreault, Gleckman, & Johnson 2015). The median cost of a semi-private room in a nursing home is \$230 per day (Genworth 2015); however, Medicare doesn't provide coverage for extended stays and most people don't purchase private insurance. Consequently, those needing long-term services will need to finance about half the cost themselves (Favreault, Gleckman, & Johnson 2015).

Often times, family members become the primary caregivers of people needing long-term services. If unpaid caregivers take lower paying jobs, reduce their work hours, or quit their jobs, they might not save as much and might end up with

lower Social Security and pension benefits going into retirement. If they use their retirement savings to help pay caregiving expenses, they could also start retirement at a disadvantage. One study found that compared with noncaregivers, caregivers have a significantly higher probability of falling into poverty and also experience a smaller growth in assets over time—particularly those who care for their spouses (Butrica & Karamcheva 2014).

Other unplanned events—such as divorce, widowhood, or a stock market crash—can also have devastating effects on retirement assets and increase the chances of running out of money. Burtless (2009) demonstrates how the timing of retirement vis-a-vis changes in the stock market can have different impacts on retirement assets. All else equal, those who retire when the stock market peaks will have significantly more assets than those who retire when the market dips.

When life changing events occur at younger ages, there is the possibility of recovery with a new job, improved health, remarriage, or a market rebound. Age and time are important factors determining whether someone recovers. Younger people typically have less to lose because they have not had time to accrue significant balances and they have more time until retirement to rebuild their wealth. Older people, in contrast, typically have accrued more assets and so have more to lose and also less time until retirement to recoup their losses (Butrica, Smith, & Toder 2010; Holden & VanDerhei 2002; VanDerhei, Holden, & Alonso 2009).

Nevertheless, there are actions people can take to improve their retirement security. For starters, they can increase their savings rate and reduce their debt during their working years—ideally well before they retire. And they can delay retirement and Social Security take-up as long as possible. While there is no guarantee that people won't run out of money in retirement, doing these things will reduce their risk.

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Conclusion

In the matter of shocks and unexpected expenses, the surprising finding from the SOA research, and the concerning finding, is that many retirees do not incorporate shocks in their planning for retirement income or retirement spending.

It is easy enough to understand the many reasons why this is so. For instance, people don't know whether they will experience such shocks and, if so, when; they don't know the likely size of potential shocks or the likely impact on spending lifestyle; they don't recall their parents experiencing such shocks other than for medical-related reasons, perhaps near the end of life; and/or they have never given much heed to preparing for unexpected events in life whether they be news of a baby on the way, a downsizing at work, a hurricane or tornado coming their way, or other major development. Some people just "decide" to go with the flow.

Yet the retirees who recollected their retired parents' encounters with shocks makes it clear that some retirees do experience shocks in the retirement years, and with costly consequences.

The message for actuaries and other professionals who serve the retirement marketplace is to take these findings as a motivator to see what can be done, in their own area of work, to address some of the issues spotlighted here. The goal could be to find ways of helping pre-retirees and retirees understand what may lie ahead in terms of potential for shocks. Some may develop ideas on incorporating that understanding into their planning, and retirement institutions might find ways of doing the same thing.

Such inquiries may lead to further research in certain areas that need more illumination. It may require looking at ways to inject "shock awareness" into planning, but without fanning the flames of fear or panic. For some, it may be simply entail encouraging oneself, one's family and/or one's staff to think more about this area and see where it might lead. Innovations might result, with benefits for all.

Profile of the 2015 Studies

Some detail on the three sets of 2015 SOA studies that form the basis of this Special Topic Report follow:

The 2015 Risks and Process of Retirement Survey was designed to evaluate Americans' awareness of retirement risk, how their awareness has changed over time, and how these perceptions affect the management of their finances. This Special Topic Report on Shocks and Unexpected Expenses presents only some of the findings from the entire survey.

The 2015 survey includes online interviews with 2,040 adults ages 45 to 80 (1,005 retirees and 1,035 pre-retirees) in August 2015, plus 198 interviews with retired widows. The participants were selected by using Research Now's nationwide online consumer panel.

The researchers analyzed the survey responses from current retirees and those not yet retired (referred to in these reports as "pre-retirees") separately. The pre-retirees and retirees represent all income levels.

Particular care was taken to ensure the income distribution of respondents matched the income distribution of Americans overall in the age range of 45 to 80. This was done through a combination of fielding targets and weighting. The research does not provide specific insights concerning high-net-worth individuals, and the researchers made no effort to oversample individuals with high levels of assets. Only 6% of pre-retirees and 9% of retirees reported having investable assets of \$1 million or more.

This was the eighth biennial study of public perceptions about these risks. The SOA survey includes new questions with each

iteration and doesn't repeat all questions from year to year. The SOA does this to further the understanding of key issues as well as keep readers current with changes in perception of risk.

For a balanced perspective, the discussion sections in this report include input from representatives of all organizations that supported the studies and material from other related research.

The 12 focus groups were conducted in June and July of 2015 in five locations: Baltimore, MD; Chicago, IL; Dallas, TX; Kitchener, ON; and Edmonton, AB. This study was designed specifically to understand how middle-income market retired Americans and Canadians manage their assets and spending decisions over the long term. It looked at longer-term retirees who had been retired for 15 or more years and had investable assets between \$50,000 and \$350,000. None had household incomes of over \$2,000 a month from rental properties and defined benefit plans, a restriction that allowed researchers to focus on people with some financial constraints.

The focus groups were separated by asset level and by gender. In addition, some groups focused on those who had experienced marital change in retirement.

The 15 in-depth interviews were conducted with people whose parent or spouse needed long-term care in old age, both in the United States and Canada. The researchers did these interviews because retirees experiencing long-term-care events were not represented in the survey or the focus groups.

