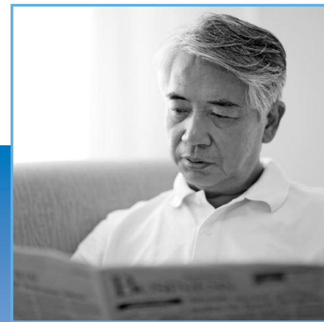
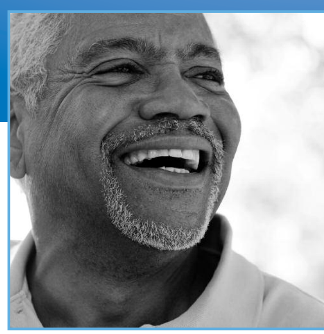
STUDY

Best-Case Strategies for a Flexible Retirement





Best-Case Strategies for a Flexible Retirement

The MetLife Study of Thinking About Retirement in Uncertain Times

February 2011

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57 Greens Farms Road
Westport, CT 06880
(203) 221-6580
MatureMarketInstitute@MetLife.com

Scripps Gerontology Center, Miami University

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Scripps Gerontology Center
scripps@muohio.edu
513-529-2914
www.scripps.muohio.edu

Scripps researchers for this study: Kathryn B. McGrew, Ph.D. and Jessie A. Leek, MGS

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Executive Summary

This study, produced by the MetLife Mature Market Institute in conjunction with the Scripps Gerontology Center, Miami University, examines retirement-related thinking, experiences, and behaviors in the face of the unexpected, combining two methods: 50 in-depth interviews with individuals and couples (approximately half recently retired and half nearing retirement) and a national survey of 1,007 individuals ages 50 to 70 (both retired and pre-retired). Both the personal stories and the survey data reveal important insights into risks associated with retirement and the components of successful preparation for retirement.

Personal retirement expectations vary from individual to individual, and retirement planning is generally built on those individual expectations. However, it is not generally built on the unexpected, and life's surprises can make or break even a good plan for a satisfying retirement. More than half (55%) of those surveyed reported that they have already had an unexpected event or circumstance impact the kind of retirement security they hoped to have. Such an experience is more likely to affect the timing of retirement, concern about all areas of retirement including long-term care needs and affording health care, and general confidence in retirement. Simply put, life is full of surprises.

- "Peg" and "Robert" had planned to retire together when Robert turned 65. Soon after Robert's 59th birthday, his company relocated him in a company down-sizing and Peg was unable to find work in their new city. She is now retired, and Robert must work longer than planned.

Meanwhile, changes in employer-sponsored health and retirement benefits and a volatile investment market have raised serious concerns about retirement security for many. The study reveals that the capacity to withstand the unexpected is dependent upon the capacity of individuals to imagine, anticipate, and prepare for circumstances that are sometimes well beyond their control. And although the very nature of the unexpected makes it hard to prepare for, individuals do actively anticipate, think about, respond to, and plan for both the expected and the unexpected, with varying degrees of success.

- "Louis" was just about to retire when he was diagnosed with a chronic illness; although working is increasingly difficult, he can't afford to retire. He needs the health benefits provided through his workplace.

- "Corrine" retired three years ago, and the first year was "a dream." Then "the bottom fell out." Her retirement plan lost one-third of its value and her health insurance premiums were doubled. If that weren't enough, Corinne's son lost his job and he and his family have moved in "temporarily."

This study presents a number of "types" in terms of thinking and responding to the unexpected both before and in retirement. The sheer range and complexity of types encountered is a reminder of the challenge that policy makers, program developers, product developers, and financial professionals face in facilitating effective preparation among individuals and families. Be it public policy, product design, marketing, or public education, one size clearly does not fit all. The set of types also suggests the importance of individual insight into thinking styles and behaviors.

Despite the difficulties that many have experienced, especially over the past few years, there are success stories as well. The study identifies common successful approaches used by "best-case strategists": those individuals and couples who have put together reliable and flexible retirement financial resources that will provide for the lifestyles they want and the needs that emerge — sometimes unexpectedly — through the end of their lives. Collectively, the list of what it takes to arrive at a best-case strategy is impressive, but it is also doable. A strategy can be put into operation by anyone willing to work at it and practice the approaches used by those who have overcome the obstacles that everyone faces at one time or another.

Key Findings

- Retirement timing is not a simple equation of the "lure" of retirement vs. the "pull" of work. There are multiple ways and complex influences through which retirement timing can be thrown "off schedule," and this can be especially complicated for dual-career couples. More than one in four (27%) survey respondents report an off-schedule retirement, that is, they find themselves retiring earlier or later than planned, due to unexpected, and often quite costly, circumstances.

- Interviewees identified a "daunting dozen" challenges, some of which are welcome, they have already faced or fear that they may face on the road to retirement security.

  1. Declining or stagnant income or loss of job
  2. Loss or erosion of pension
  3. Catastrophic illness or disability
  4. Loss of health insurance, or escalation of health care costs
  5. Death of a spouse
  6. Caregiving demands

7. Financial problems of children or other family members

8. Investment losses

9. Loss or erosion of social benefits

10. Living “too long,” or outliving one’s resources

11. Combination scenarios

12. Windfalls: Unexpected, but welcome, scenarios

- Only two in ten individuals report that they are “very confident” that they will have enough money to live comfortably if they or their spouses/partners live to 85+ years of age, and another six in ten (58%) are only somewhat confident. The remaining, more than one in five (22%), are not confident in their retirement security.

- Confidence in retirement security is most strongly related to the presence or sufficiency of a guaranteed stream of income (68%) and adequacy of savings (51%). Those with 49% or less of income expected from guaranteed monthly income also reported anticipated retirement later than planned. Among adults who plan to retire later, they plan to retire, on average, more than 3½ years later. Financially related issues are the primary reasons for the delay.

- Many unexpected expenses can be considerable, especially if multiple expenses arise, and last for some time. In many cases these expenses can cost $10,000 or more and average between $6,500 and $8,300 depending on the type of expense. One-quarter to more than one-third have lasted an indefinite period, but average 7 to 11 months.

- Alarms about retirement risks do not inevitably or immediately prompt retirement planning. Several styles of thinking about the future suggest that people are not easily awakened to retirement risks. Paradoxically, alarms may produce inaction rather than action. Planning also takes time. Finally, people are willing to compromise and leave some level of risk uncovered in exchange for more immediate needs or lifestyle choices. Types of thinkers identified are:

  - **Snoozers,** who don’t think about future risks at all. Future risks are not on their radar screens.

  - **Active Resisters,** who “choose to snooze,” or choose to ignore information about future risks.

- **Immobilized Worriers,** who understand future risks but whose worry prevents them from acting.

- **Oversleepers,** who are late in their thinking and planning, and may regard their decision or action windows as "come and gone."

- **Wood Knockers,** who think about the unexpected but rely on hope; they choose optimism. Somehow, things will "work out."

- **Plan B-ers,** who hold on to a contingency plan, or the loose idea of one, as a protection against trouble ahead. A Plan B may be a "plan" in name only.

- **Realists,** who use the lessons of past experience to think about the future.

- **Stewers and Brewers,** who take a while to make decisions. Stewers may fuss and fret, while Brewers play with ideas and planning strategies.

- **Compromisers,** who think about both today and tomorrow and balance their current needs against future risks.

- **Preemptive Planners,** who strive to preempt future risks, or at least their consequences.

- Thinkers about the unexpected may not necessarily fall neatly into one of the above types or another, and if they do, they may not stay there. Each individual may have pieces of one type or another, or change from one time to another. They may be Snoozers about some unexpected scenarios, Wood Knockers about others, or Preemptive Planners about still others.

- Many interviewees, especially those who feel fairly good about their retirement security, have strong planner identities and long patterns of planning. Nonetheless, on average survey respondents spent 15 hours in the past six months gathering information or planning for retirement. One in five spent no time on planning during that period.

- Couples in the interviews reflected a wide range of communication and negotiation styles and patterns. For couples who "see eye-to-eye" or are "on the same page," decisions require little negotiation; for other couples, negotiation is required to achieve financial peace in the household; for still others, financial decisions may be made by one partner, with little or no involvement from the other. These findings suggest that although communication styles and patterns vary, finding a pattern that works in a household is important to successful financial decision-making.

- Retirement expectations vary and preparation activities are geared accordingly. While some expect their lives to expand in retirement, others are ready for life to contract. Many people are preparing or ready for a "down-sized life" by choice.

- Attaining a Best-Case Strategy for retirement may seem out of reach for many, but that mindset would be a mistake. It is possible to work toward a secure retirement even when a dream retirement appears elusive. The study demonstrates very clearly that retirement aspirations and needs vary widely from one individual and family to another. It is important to decide when it is and is not helpful to compare oneself and one's circumstances to others.

- There are four core issues that challenge even the best-laid plans, largely societal in source and scope:

  1. Tenuous health care coverage is a very real threat to retirement security. Interviewees and survey respondents overwhelmingly identified health care coverage as a critical determinant of their retirement timing and sustainability. Two-thirds (65%) of survey respondents reported that they are very concerned or somewhat concerned about being able to afford health care in retirement.

  2. Long-term care costs can be catastrophic in retirement, yet this is where a lot of retirement planning stops and significant risk-taking (or risk-choosing) begins. Two-thirds of survey respondents reported at least some concern about providing for their own or their spouse's/partner's long-term care needs in retirement. Yet, less than one-third had estimated the costs of long-term care or added health care expenses in retirement. Only one in five had insured against long-term care risk.

  3. The vanishing or eroding defined-benefit pension is identified as a formidable threat to retirement security by reason of its relative importance to the many interviewees who are beneficiaries of such a guaranteed income system. Of those surveyed who reported confidence in their retirement plans, well over two-thirds (68%) cited their guaranteed stream of income from pension, Social Security, annuities, etc., as a reason. Importantly, however, even when interviewees have defined-benefit plans, the value may have eroded or may never have been adequate to cover essential income needs in retirement. Finally, because employers have generally abandoned guaranteed income plans in favor of contribution plans (401(k)s), it is important to note that some of the interviewees experienced freezes or drops in the employer match to their 401(k)s; and, others confessed that they had not contributed sufficiently to their contribution plans.

4. The vagaries of the stock market are critical because retirement security is increasingly reliant on the size and health of 401(k)s and individual investments. The interviewees expressed varying degrees of faith in the equities market, and in the future of their investments. Several had suffered significant losses in the recent market downturn.

- Effective approaches to meet the unexpected with a flexible plan are not a simple matter of responsibility and self-discipline. A variety of circumstances and characteristics combine to produce the best possible outcome. As one retiree observed, "Retirement is hard work." Interviewees who felt that they were successful in their work toward a Best-Case Strategy exhibited a common set of approaches: A Best-Case Strategist…

  - Has a sense of self-reliance
  - Thinks about the future — all the way to the end
  - Anticipates…or, expects the unexpected
  - Designates a budget column, today, for a future self
  - Sets and lives by personal financial rules
  - Stops, sits down, and focuses on the future…and talks about it
  - Engages in the "What ifs?"
  - Puts pencil to paper, or cursor to screen; Does the math — All of it
  - Gathers information
  - Seeks advice
  - Gets the house in order — literally
  - Starts as soon as possible

- Clearly, there is no single road to retirement security. There are too many variables to suggest a universal package, yet even a simple contingency plan framework can be very helpful. In general, financial planners and planning tools do a good job of taking individual values, preferences, and resources into account in order to achieve the "best fit" for individuals and families. This first requires that individuals and families assess and if needed modify what types of thinkers they are about their futures. With that accomplished, advisors, individuals, and families can work from the common characteristics of Best-Case Strategists to arrive at the optimal retirement planning strategy for them.

Introduction

As a life stage, retirement in the U.S. today is arguably more ambiguous, unstable, and unpredictable than it has ever been. The associated risks have never been higher, and retirement confidence has never been lower. The Society of Actuaries Committee on Post Retirement Needs and Risks identified 15 "commonly encountered" risks among retirees, among them: longevity; death of a spouse or other change in marital status; inflation; interest rate and stock market risk; change in housing needs; unforeseen needs of family members; lack of available facilities or caregivers; unexpected health care costs and needs; and inability to live independently.[1] At the societal level, in what political scientist Jacob Hacker calls the "Great Risk Shift,"[2] the U.S. is shifting significantly from a society of shared risk to one of personal responsibility. This shift calls prospective retirees to rely less on guaranteed retirement income provided by Social Security and defined benefit plans, less on the health care coverage provided by Medicare and an employer-based health insurance system, and more on their own, self-funded retirement security. The 2010 EBRI retirement confidence study found that although confidence in retirement security has "bottomed out" at record lows in the previous year, retirement preparations are "still eroding."[3]

There has also been an expectations shift toward increased productivity and engagement in retirement. Such a confluence of forces means that opportunities to change the way we "do" (and when we do) retirement are also increasing. Retirees seek not only to survive, but also to thrive; in the face of challenges both physical and financial, they seek the Best-Case Strategy for their future. This requires that they seize opportunities and manage risks by making careful decisions to achieve maximum flexibility and an optimal set of choices, as individuals and families — first in pre-retirement planning and then within retirement itself.

This study explores the retirement-related thinking styles, experiences, and behaviors of pre-retired and recently retired individuals and couples through 50 in-depth interviews and a nationally representative survey of 1,007 pre-retirees and retirees age 50 to 70. It identifies a number of challenges and surprises that can arise on the road to retirement security, not the least of which is the timing of retirement itself; the many types of thinking (or lack of thinking) about the unexpected; four formidable issues that threaten even the best-laid plans; and common approaches of Best-Case Strategists in retirement planning.

Even in this time of great uncertainty, individuals and families who have achieved a Best-Case Strategy have reliable and flexible retirement financial resources that will provide for the lifestyles they want and the needs that emerge — sometimes unexpectedly — through the end of their lives.

Twelve Tales of "Off-Schedule" Retirement

When should we expect to retire? Retirement timing is very much a matter of individual circumstances. Ideally, retirement timing is a matter of individual control, at the "moment" when the lure of retirement is greater than the pull of work, with all necessary resources in place. However, very few interviewees, even those with considerable preparation, reported full control of the timing of their retirements. They retired, or now expect to retire, "off-schedule," that is, not according to their original timelines, and often with significant financial and lifestyle implications. Among the retirees interviewed, most had retired either earlier or later than they had hoped or planned. And of the pre-retirees, most have adjusted their retirement timing expectations in one direction or the other. The reasons for these timing issues are varied, but can be characterized in the following ways:

Holding On

Individuals holding on to their jobs and careers longer than expected describe the reason for holding on because they want to, not because they have to. The rewards and benefits of their work outweigh the lure of retirement, and by holding on, they have surprised even themselves. For many, work identity is cherished and hard to let go of. "Sometimes [the idea of retirement] is very exciting and other times it's quite frightening, to give up our career, who we are, and what we've done for so many years, and to say, okay, that's not me anymore."

Holding on can also be a matter of simply loving one's job enough to stay, even longer than expected. As one interviewee who had made a recent career change said, "I have a job that makes my heart sing." Although at one time she had imagined an earlier retirement age, today she is "nowhere near ready" to retire.

Sometimes, holding on longer than expected is as simple as not feeling that retirement lure: "I keep hearing that you know when it's time to retire, and I haven't felt that yet."

Clearly, for those at their jobs longer than expected, the voluntary act of holding on is the most positive of reasons identified. Holding on longer than expected also changes retirement calculations and planning. It can (but doesn't always) mean that one has more financial resources upon retirement, but it can also change the composition of one's retirement years by changing the ratio of healthy to unhealthy years remaining. Retirement planning changes accordingly.

On Hold

Compared to individuals holding on, individuals on hold are less happily working longer than expected. They feel the lure of retirement but are riding out uncertainty until the “right time.” They describe conditions, usually financial, as “not quite right,” and have decided to hang in there just a little longer. Although they believe they could leave, they don’t believe they should. “Of course the recent change in the stock market put us on edge…It did shake us a bit and cause us to say oh, we need to sit tight maybe a little longer and ride this market out and see what’s going to happen.”

Some individuals and couples are on hold while they make a strategy adjustment: “We are so much in flux right now. Some things didn’t go the way we expected them to go, and certain monies didn’t accrue the way they were supposed to. So that really kind of changed our strategy.”

Being on hold may last a while, according to a few of the interviewees. “I’m really taking it year by year. So I could be drawing [a pension] now, but just prefer to be working at this point with what’s happened economically. I just figure as long as we’re healthy, we better keep working and just put away as much as we can.”

Although individuals and couples on hold are generally less happy to be at work, they are making strategic decisions to improve their retirement scenarios, even as this means an adjustment in retirement timing. Like those holding on, “on-hold” households will retire into a different composition of retirement years than otherwise anticipated and their plans must change accordingly.

Held Up

For individuals and couples held up in their jobs, working longer than expected is both unhappy and involuntary. Some have been held up in their jobs by the fact that they are or were not anywhere close to being able to live on the resources available at their desired retirement age. Their “decision” not to retire was not because they felt they should not, but because they knew they could not. This is especially true of individuals whose 401(k) plans and other investments took a significant “hit” in 2008. “I’m very disappointed with the Wall Street collapse. …I’m going to have to work a lot longer than I would have preferred to recoup that money. I would have preferred to retire around 65 or 66.” Said another: “When my 401(k) started recovering a little bit and I said to myself, if it gets to this level, I am GONE. And it got to that level. I would have done it even earlier, but I lost two-thirds of my 401(k). I had to work two more years.”

Held Hostage

It is important to note that not all reasons for being held up at work are financial. A few interviewees were held up by very strong requests from their employers because of their unique roles in the organization, or the absence of a qualified replacement. In these ways, they were held hostage in their jobs. They were essentially there involuntarily, but importantly in these cases, their responses to this circumstance could be described as more dutiful than unhappy. Theoretically, the financial outcome of being at work longer in this particular way is closer to that of those holding on to their jobs because they wanted to and not because they had to. Insufficient retirement resources had nothing to do with the timing; therefore the likelihood of accruing more retirement resources than otherwise anticipated is there, and planning toward fewer retirement years and their different composition is required.

Shoved

Individuals who are shoved into retirement earlier than expected have no choice or say in the matter. A few interviewees had simply lost their jobs at an age close enough to retirement that the issue of an early retirement was clearly forced. Perceiving the likelihood of re-entering the workforce to be very slim at their ages and with their particular occupations, these individuals felt shoved into retirement before their "time."

"Thirty-two years with one company, and 'poof,' there it goes. No one else would even take a look at me, I mean, [finding another job] was not going to happen…[Retiring] was my only option."

These individuals had expected to stay in their jobs longer and were clearly caught off-guard. Suddenly shoved into retirement, they had to recalculate and adjust their retirement plans. They would now be retired for more years and with fewer resources, an unexpected and unwanted scenario. Finally, a few people experienced sudden disability or the accumulated and insurmountable effects of a chronic health condition that effectively shoved them out of work. This circumstance is especially troubling when the loss of income and/or health benefits is compounded by increased, sometimes catastrophic, health care expenses.

Pushed

Several retirees describe retiring earlier than expected as technically voluntary but barely under their control. Retirees who had been pushed to retire early cite increasingly untenable work conditions, stress-related health effects, or troubling changes in their organizations as key factors. Many retirees had been pushed into retirement by such circumstances and many pre-retirees were anticipating an earlier retirement because of their work conditions and related effects. “I hit a wall.” “My work was killing me.” “We (husband and wife) were so burned out we couldn’t bear another month of working.”

The experience of being pushed into retirement earlier than expected, though not necessarily sudden, creates an urgent need to adjust retirement planning to account for longer years and fewer resources in retirement.

Nudged

Several retirees in the study had been nudged to retire early, in the form of an explicit or implicit request, often with somewhat irresistible enticements, from their employers. In a time of workplace downsizing and “riffing,” i.e., reduction in workforce, this appears to be an increasingly common scenario.

“The [employer] was having some financial difficulties, and things were kind of going downhill there. So they were looking for ways to jettison some contracts of more mature [employees]. They were able to make a deal.”

“[My employer] was going to lay people off if I didn’t retire, so there was an offer to anyone over the age 55 that they would pay us for five years if we would just go away. So I said, ‘I can go away.’”

This kind of “job loss” (early retirement with incentives) can be a very good deal, especially when the additional retirement years are welcome and the resources to finance them are there. On the other hand, those happily working and holding onto their careers experience nudging as loss — plain and simple. Whether experienced positively or negatively, being nudged usually happens relatively suddenly and unexpectedly, and less-financial decisions (what to do or where to live in retirement) must be faced sooner than anticipated.

Lured

Some retirees retired sooner than they had anticipated because the lure was strong and they found themselves in an unexpectedly early situation in which they could. In such cases, the appeal of retirement was already there, and the financial resources no longer lagged behind. They retired "early." "We figure this point in our life is our 'golden years.' If we don't take advantage of them now, you just can't take things for granted. So that's what we're looking forward to."

One individual took a leave of absence well before her expected retirement date, even though her pension doesn't kick in until later. She felt the lure of retirement and had the luxury of "stepping away" from her work life. "[My husband's] success with the company…allowed financially for me to be able to step away…I chose…to just slip quietly away rather than wait."

These retirees retired early with confidence in their planning. Clearly, workers feeling the lure of retirement "before their time" must make careful recalculations in their retirement planning. For those retiring with confidence, these are described as happy, unexpected scenarios.

Tugged

A few individuals faced unexpected scenarios due to circumstances and needs of others that outweighed the preference and plan to stay at work. The needs of others, though not necessarily urgent, tugged at some individuals and couples strongly enough to lead to earlier-than-planned retirement. "My mother died about five years ago and dad moved here after that. He just lives two blocks away and he's 86 and so you can't help but be thinking ahead…He's a big piece of this puzzle with us thinking about retirement and getting lined up."

Importantly, being tugged away from a job and into early retirement also means being tugged into an unanticipated retirement lifestyle, characterized less by leisure and more by caring for others. Such an unexpected scenario has both financial and social costs and they may compound each other.

Yanked

Like the tugged, the yanked left their jobs early due to the needs or circumstances of others. But unlike the tugged, the yanked felt very little choice in the matter. Some individuals among the interviewed couples were yanked into retirement when their spouses were transferred and relocated to other jobs in other geographical areas. This was experienced as job loss, and like the "shoved," it was sudden and unwelcome. Also like the shoved, these spouses were close enough to "retirement age" that finding new work in a new location was perceived as improbable. "[When my husband's job was relocated], I knew it would be hard for me to find a new job at this age in my [line of work]. Although I was not really ready, it made more sense to just retire."

A few others described urgent caregiving demands. "I [left my job and relocated across the country] because my dad was elderly and he wasn't able to deal with things. That was the entire reason. I never would have lived here otherwise…It had to be done. There was no choice in the matter."

Those who are yanked face not only job loss and unexpected retirement with their associated financial implications; they also face lifestyle changes brought on by such demands as caregiving and/or relocation. These unexpected challenges place even well-thought-out retirement plans at risk.

Combinations Within Individuals and Within Couples

Several individuals have experienced multiple conditions that operate all at once to throw their retirement off schedule, for example, a little bit of push, a dash of tug, and a touch of lure, together contributing to an earlier-than-planned retirement decision. Others reflect a combination of holding on and being held up that keeps them at work.

One retiree who had been holding on to her career ("I was more or less putting it off. I had a lot of satisfaction and gratification in what I did") describes her decision to retire as a "perfect storm," as she was pushed, lured, and yanked at the same time. "The [workplace] was in very bad distress…Everyone felt on edge. My husband's health condition, he has Parkinson's, was worsening, and I was getting nervous leaving him [alone]. I was getting physically tired of working and my daughter was out [near the west coast] with a young child and I was [in the Eastern U.S.], so I decided that it was time to pick up and move on in my life."

Such combinations, like a one-two punch, can be much more powerful than single circumstances.

Retiring from Retirement and Returning to Work

No matter the timing, retirement is not always completely work-free and is not always permanent. Some of the interviewees work or expect to work part-time in retirement. One in ten survey respondents had "retired" into part-time work or returned to part-time work. A few of the retired interviewees had returned to work "unexpectedly." One retiree returned soon after retirement to part-time work, surprising herself. "There is something in me that I am not allowing myself to stop working. I know that I get a paycheck every month and it is deposited into my bank account…I can't seem to let go of that."

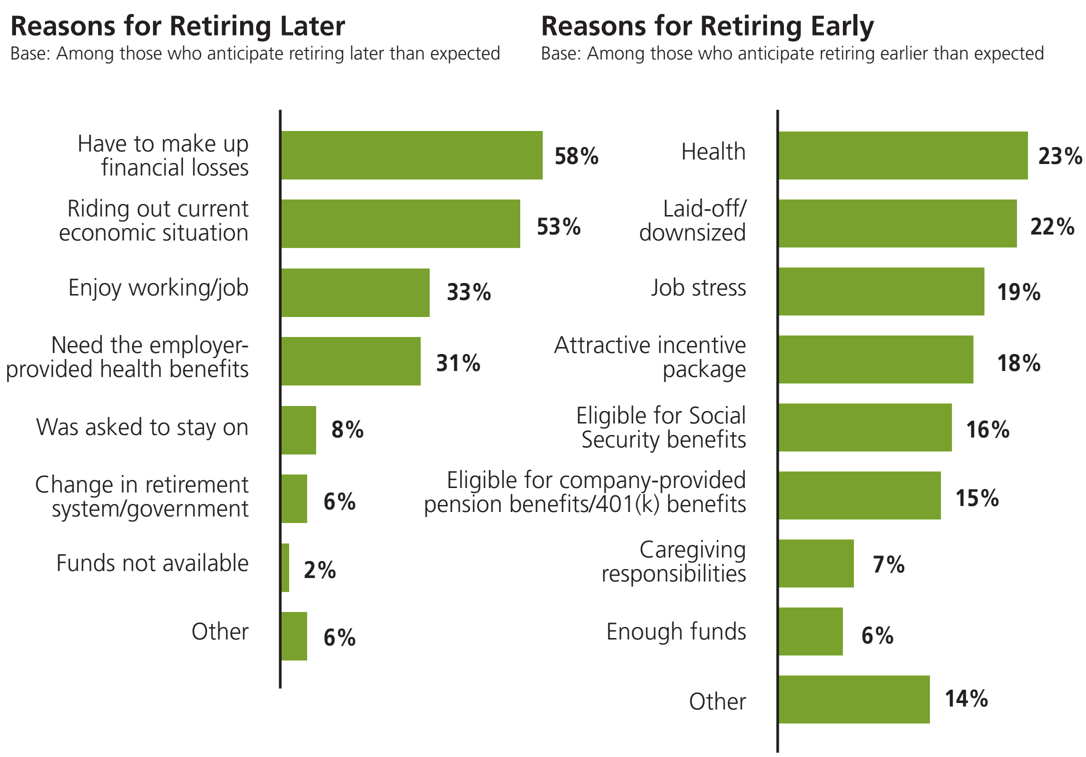
Another found herself sufficiently "refreshed" from her brief retirement that she plunged full-force back into a career, taking advantage of a "second wind." Returning to work, when it is by choice, is perceived by these "retirees" as a luxury. Their unanticipated added income now changes their retirement calculations and compels a need to revisit their plans.

Retirement Timing: A Mixed Profile

The survey findings reflect the diversity of retirement timing scenarios found in the interviews. Readjusting the anticipated age of retirement was common among survey respondents, with more than one in four (27%) reporting that their planned age of retirement has changed within the past two years. For every person retiring earlier than expected, two people are retiring later than expected.

For those who are delaying retirement, the length of time varies, but the average anticipated length is over 3½ years. Responses suggest many individuals are "held up" or "on hold" in their jobs. The top reasons include making up for financial losses (58%), and riding out the current economic situation (53%).

Figure 1: Reasons for Readjusting Retirement Timing



For those who anticipate retiring earlier than planned, the reasons are more varied. Some individuals exhibit being "shoved" or "pushed" due to health reasons (23%) or job stress (19%). Others were "shoved" due to layoffs (22%) or "nudged" with an attractive incentive package (18%). The average number of years-earlier respondents plan to retire is four years, comparable to those anticipating a later than planned retirement.

The Daunting Dozen Challenges to Retirement Expectations

There are several life events or experiences that can impact individuals' retirement expectations. Interviewees identified those often unexpected scenarios that could or did significantly alter their plans, sense of security, or retirement expectations. More than half of the survey respondents report that they've had something come up that has impacted the kind of retirement financial security they hoped to have. Top mentions include a major financial loss, retirement (of self or spouse), and loss of health benefits or major change in health status.

Declining or Stagnant Work Income or Loss of Job

Several individuals have suffered job losses or job down-sizing earlier in their lives or recently. Some whose income is or was tied to the real estate economy have suffered major losses. Others had jobs that were outsourced, or transferred "out from under" them. Such events have clearly impacted income security.

"The company had a relocation. We had a down-sizing, so my job went away."

Income security played heavily in the survey results as well with almost half (48%) responding that outliving their retirement money was a major concern.

Loss or Erosion of Pension

Many who have pensions find them decreasing in value. One retiree who has a defined-benefit pension says, "It's less of a pension that it originally should have been because there were several corporate takeovers that, through the years, reduced the amount. It's less that we had been told several years ago."

Even when income is expected to remain steady, some individuals worry about its declining spending power. "[My husband's] pension does not have a cost-of-living adjustment…Quite seriously, I worry about inflation."

Catastrophic Illness or Disability

Two-thirds of survey respondents reported concern about providing for their own or a spouse's/partner's long-term care needs over an extended period of time. While major illness had already intruded upon the lives of some study participants, nearly all interviewees identify the prospect of a catastrophic health issue or disability as a potential threat to their retirement security. For some, this feels remote, but imaginable. They imagine "strokes," "disabling accidents," "a catastrophic illness," and "Alzheimer's disease" among others. For one individual, the prospect of her own illness is troubling not just for the impact on herself but also on her ability to care for her husband who has a chronic debilitating disease. "That would be a disaster and not just financially, [but] because he needs me." Concerns about the household financial impact of disability were also expressed: "In a nursing care scenario I would say…[one of us] could probably still tolerate [the costs], but it would affect…the remaining spouse's lifestyle."

Loss of Health Insurance or Escalation of Health Care Costs

Associated with catastrophic health care issues are their related costs and the prospect of not having or being able to afford health insurance coverage. Many interviewees shared a concern about the future of their health care coverage and about escalating costs. Some pre-Medicare interviewees had already seen enormous, nearly intolerable, increases in premium costs of private plans. Others worried about losing their employment-related insurance altogether. "If we lose our health care insurance and we had some major illness, I would say that could do it."

Concerns about health care costs are significant among survey respondents as well, with 65% expressing that they are very/somewhat concerned about being able to afford health care during their retirement years.

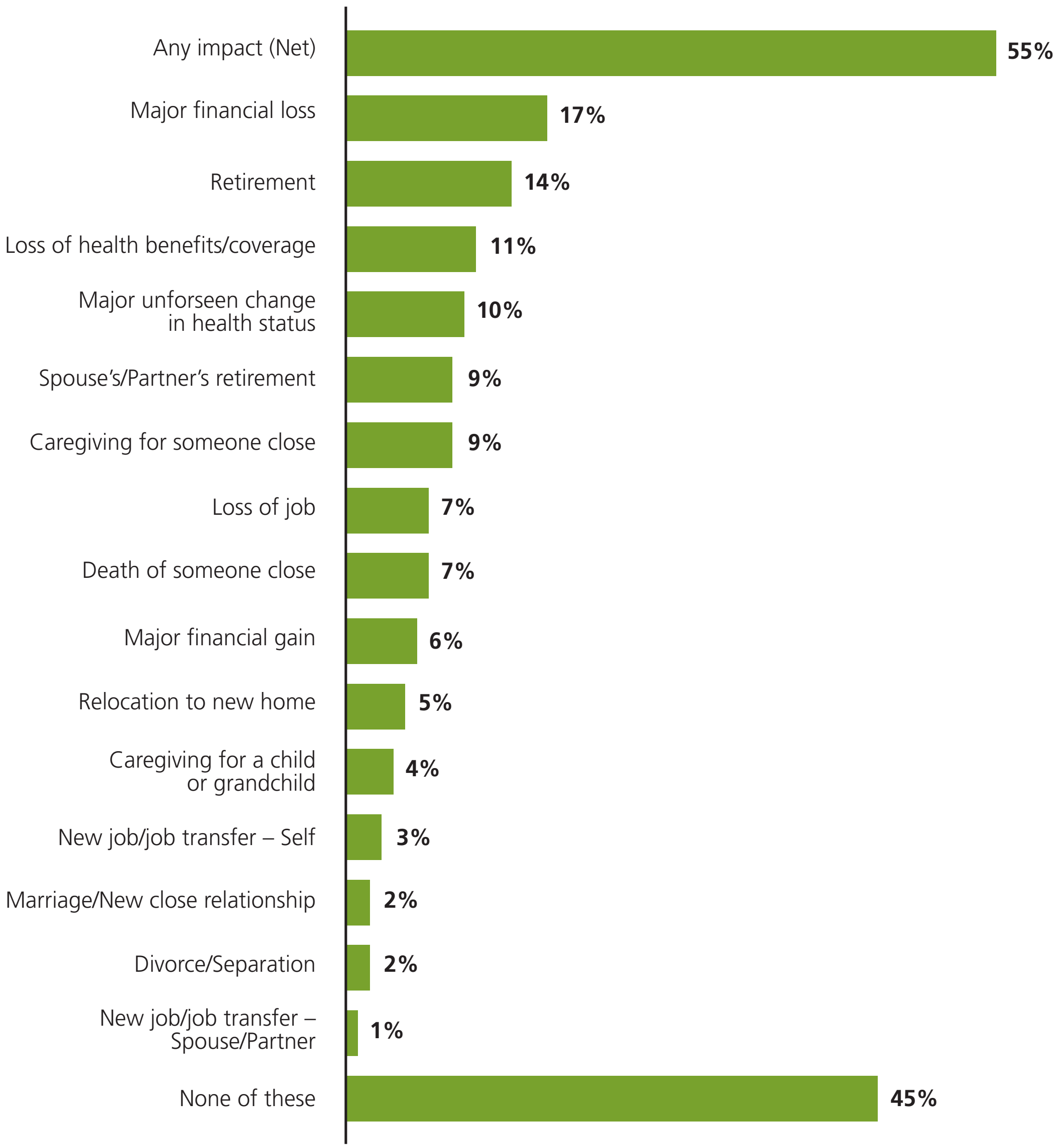
Death of a Spouse

The financial impact of the death of a spouse on the surviving spouse is of concern to couples who are relying on spousal work income or retirement income. This is especially true for women in the study.

"My retirement security is tied somewhat to my husband's pension, so we are praying that if he goes first, I won't go too long after."

"If [my husband] died I would have to sell our home; my benefits would be reduced."

Figure 2: Factors That Have Impacted Retirement Financial Security



Caregiving Demands

Many imagine the prospect of parent or spousal care and its impact on their own lifestyle and financial security.

"My dad has got Parkinson's disease. He's starting to fall down now. Mother has had a hip replaced and knee replaced. They're only about two steps away from a nursing home."

"I expect my husband's illness to confine us more."

Several participants declared a sense of personal responsibility for the welfare of their parents in a long-term care situation with statements such as, "We both have parents that are in the 80s, so if something would happen they would need our help," and "My mother may need more care than she can afford. I may be the one."

Financial Problems of Children or Other Family Members

Several individuals shared concern about their sense of responsibility or liability for the financial security of family members. "My brother isn't that financially solvent and…right now I have health insurance for him, but…if something happened that could be an issue."

Others worry about the looming possibility of "bailing out" children in today's difficult job market: "I would have trouble if, say, my son-in-law lost his job and they really needed assistance for quite awhile and the economic road being what it is."

Investment Losses

Some of the unexpected scenarios identified by interviewees are national or global in scope but have the potential for significant personal consequence. Real or imagined experiences with the investment markets are a case in point.

Among the real: “My net worth went from “X” to about one-half of “X” in about four months…There’s a lot less in that IRA than there was six years ago.” “I mean what’s happened with the stock market. So much is tied up in mutual funds and things like that.”

Among the imagined, a common comment: “Another 25% or 30% drop in the stock market, yeah, that would have a profound impact.”

Loss or Erosion of Social Benefits

Several individuals express serious concern about the stability of such social programs as Social Security and Medicare and the implications of this for their own retirement security.

“I don’t foresee Social Security being available anymore so my entire retirement is going to…have to be self funded, I do believe, and I don’t know if Medicare will be around, so the lack of government benefits is going to be a major issue.”

Living “Too Long” or Outliving One’s Resources

A few individuals report concerns about simply living “too long,” whether in good health or not. They clearly recognize that, for some, longer life and fewer financial resources could go hand in hand. “I think I am likely to live into my 80s or 90s, and if I go beyond that, I may be in trouble.”

“I don’t want to outlive my resources…I think you can live too long.”

As these individuals remind us, one of the great unknowns in life is individual longevity, and the “threat” of outliving one’s resources is one of the major challenges in retirement planning.

Survey respondents expected on average to live to be 84 years old, but more than one-quarter (26%) expect to live to more than 90 years. Over two-thirds (68%) of those who feel that they will have enough money to live comfortably into advanced age cite the fact that they have resources for guaranteed income through employer defined-benefit pensions or annuities, and over half (51%) feel they have sufficient savings to allow them to be confident of their financial security.

Combination Scenarios

Sometimes, while ordinarily expected circumstances might be tolerated independently, it is the collision of circumstances all at once that is unexpected. One overwhelmed retiree sums this up: "We planned for retirement a long ways out — but I'll admit to you that I didn't plan on three kids in college, buying a house, and my mom and dad getting older all at the same time…I don't think I realized how many things were going to gang up at the same time on the net worth that I had acquired for 30 years."

Windfalls: Unexpected, but Welcome, Scenarios

Finally, not all unexpected scenarios represent losses or threats of loss. Several individuals and couples have received inheritances, from small to significant. Although generally perceived as welcome, inheritances or other windfalls require decision making in retirement planning.

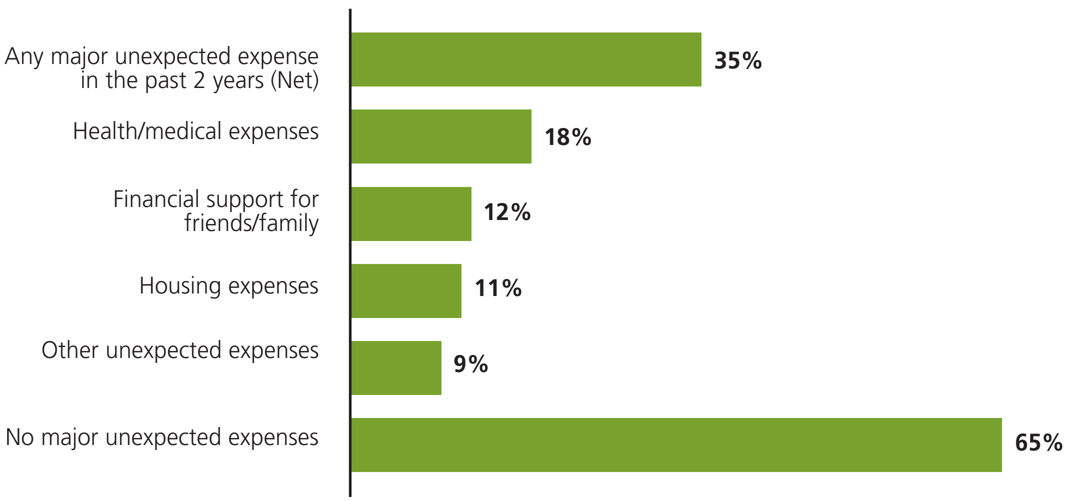
"I used my inheritance to purchase an annuity that would cover our long-term care insurance."

"I tucked that away. I figured that some point in time, either that money would be spent in travel or leaving it in an account for our children." This windfall was never counted on and was set apart from the retirement budget. "I tucked it away because I could."

How Do People Think About the Unexpected?

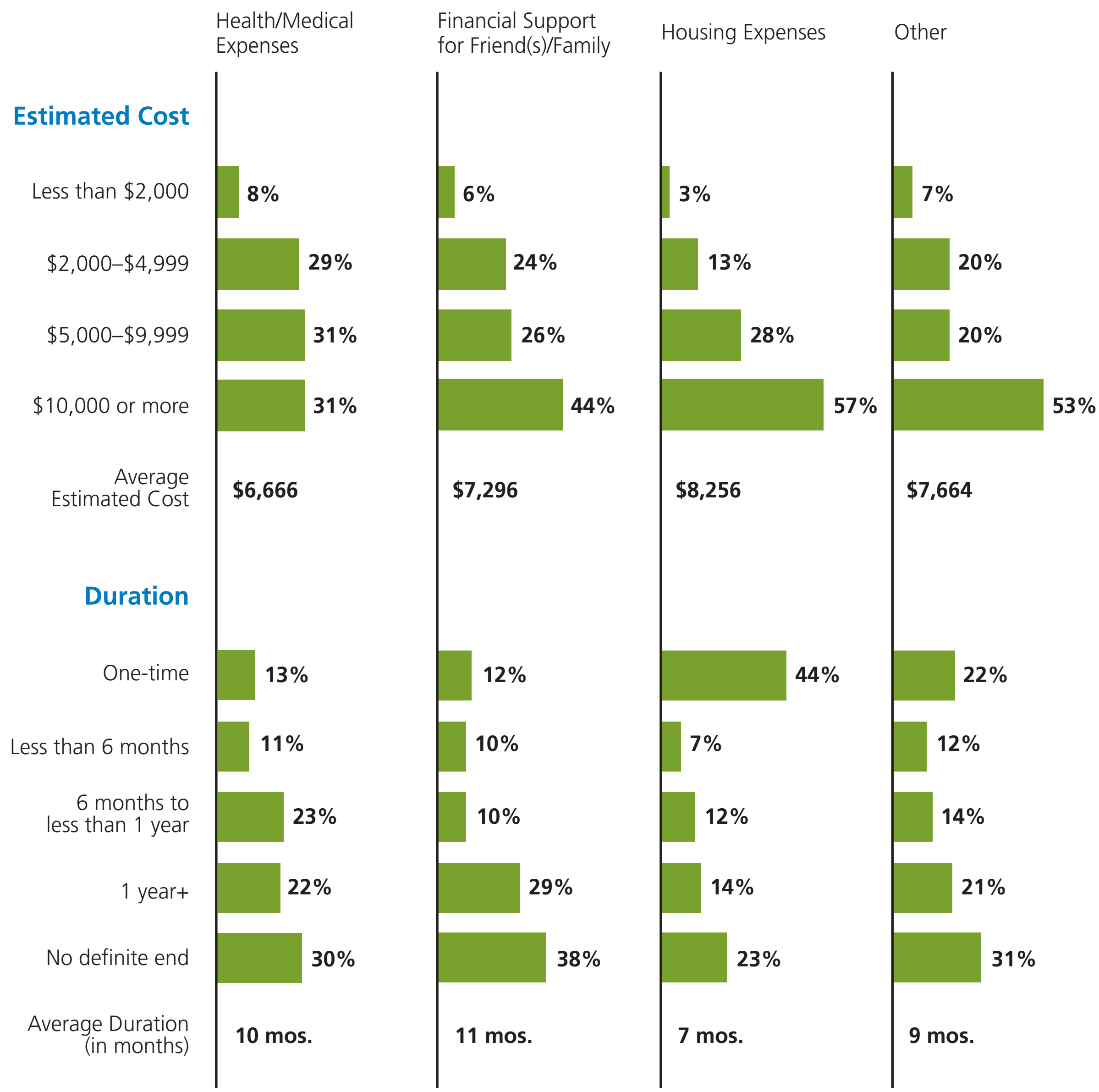
More than a third (35%) of survey respondents experienced a major unexpected expense in the past two years. Most often, these expenses were health-related. To handle the unexpected, only about half (52%) of respondents have a contingency financial plan, and only a quarter are very confident that their plan will execute as intended.

Figure 3: Major Unexpected Expenses in the Past Two Years



If an unexpected financial emergency were to arise, more than half (53%) report they would deal with it if and when it happens. Others say they plan for the most likely scenarios (43%). Obtaining cash, whether drawing from a “rainy day fund” (40%) or from a retirement fund (20%) are the most common ways to cover unexpected expenses. These expenses can be considerable, especially if multiple expenses arise, and last for some time. In many cases these expenses can cost $10,000 or more and average between $6,500 and $8,300 depending on the type of expense. One-quarter to more than one-third have lasted an indefinite period, but average 7 to 11 months.

Figure 4: Estimated Cost and Duration of Unexpected Expenses



The study reveals a number of different ways of thinking (or not thinking) about unexpected scenarios that threaten retirement security. In the following discussion, the word "it" is left to generally represent any one of the dozen challenges identified above; the "it" varies from story to story, but the ways of thinking about "it" are comparable. So how do people think about "it?" The following types emerged from interviews:

Snoozers

Snoozers generally don't think about the unexpected at all; they may stay in a deep slumber or preoccupied by unrealistic dreams. "I just never think of those things. They don't cross my mind." If snoozers do think about the unexpected, "it" lies barely perceived, maybe part of a fitful sleep, yet not enough to wake them up. "It's always in the back of my mind…rolling around in the back of my brain…but as far as consciously thinking about it…I don't do that."

Snoozers are generally oblivious to wake-up calls that come from different sources, sometimes the (often negative) experiences of others in one's life or one's own personal experiences (maybe a first brush with the unexpected). "Our thinking was prompted by the fact though that [my husband's] dad was in the nursing home and that [my husband] helped his mom with a lot of the financial considerations as she went through that whole process."

"I can't tell you how many times we've heard a 65-plus person say to us they just retired and had all these great plans and now they're [in trouble]."

Still other calls may come from something we read or hear from public sources, such as news media and marketing: "Just that one statistic (women's risk of widowhood) really got me thinking."

Individuals respond differently to wake-up calls, in ways much like the different patterns we see in morning risers at the sound of their alarm clocks. Although some wake quickly and easily, charging into the day and the tasks ahead, others simply hit the off button, choosing to return to sleep on their own terms, with an indefinite wake-up time. Still others actually reset their alarms, making a deliberate decision to postpone the start of day. Finally, some hit the snooze alarm, perhaps repeatedly, snatching just a bit more sleep before facing the day ahead. These differences are seen in three types of thinkers that follow: Active Resisters, Wood Knockers, and Immobilized Worriers.

Active Resisters

Active Resisters roll over to hit the "off" button. They have heard an alarm, but choose not to think about it or act on it. They choose to snooze, resisting cues and messages around them. "I'd say since…what? October of '08? — when it was doom and gloom. I've got a dad who's basically doom and gloom and… we're constantly confronted with this negative thinking and it's like I want to be realistic, but I can't live, you know, with this total doom and gloom."

Immobilized Worriers

Immobilized Worriers are good at hitting that snooze alarm. They have had their consciousness raised, or heard their wake-up calls but they can't quite bear to face them. They aren't lulled by the same hope as Wood Knockers and have to find ways to put off their worry without acting.

"There are certain things you just kind of let go because…it's not an option for us to deal with it, quite frankly."

"I think the key is too, is that we don't panic on the same day…because if we were to both panic on the same day, then I think it would be over."

Oversleepers

Oversleepers are somewhat like Snoozers, but they do wake up…just late. They realize that the alarm went off a while ago, and now wide awake, perhaps in a panic, they have some decisions to make about how to make the most of a shorter day.

"We're trying to do what we can to make up for some lost time here…but I think we've got a handle on it now."

Some regard their decision or action windows as "come and gone"; they believe they have waited "too long." "I was one of those people who just didn't think in terms of [planning] while I was younger and at this point I've made the assumption all along that it would be quite expensive."

Wood Knockers

Wood Knockers are good at resetting the alarm; they rely on hope…or they choose optimism and sound something like this, "Today we don't have any such plans, knock on wood." They allow themselves to think about possible unexpected scenarios, but they are good at turning these around, creating hope-filled scenarios that don't require planning. "I'd like to think things will stay peaceful, calm, and sane for a few years. Ha ha ha…that we will have no crisis health-wise, that the economy will get better so things will seem more secure for everyone including the local economy out here, that another grandchild will join the family, that hopefully my other daughter's life will improve a little bit. Of course I live in fantasy land."

About one in five (17%) survey respondents take this "knock on wood" approach and say they trust that unexpected circumstances will work themselves out somehow.

Wood Knockers who hope for the best often do so by writing and repeating a hope-filled script; this appears to have a mollifying effect on worries about the unexpected. "The reality is that it's going to be fine. It's always fine."

Some would argue that a very different form of optimism is faith, either faith in oneself or spiritual faith, expressed by many as a source of comfort about the future. "It's a matter of faith." "It…comes down to a faith factor on some of this. Keep on trucking along." Such faith goes beyond wood knocking in that it is characterized by a belief not found in simple hoping; even so, both hope and faith, as forms and sources of optimism, often preclude planning for an unknown future.

The following types of thinkers about the unexpected, Plan B-ers, Realists, and Stewers and Brewers, have heard and risen to the wake-up call. It is important to note, however, that, among these types, wake-up calls may produce thought and talk, but do not invariably produce action.

Plan B-ers

Plan B-ers regard themselves as fully awake to future risks, but hold on to a contingency plan, or the idea of one, as a protection against trouble ahead. They are realistic about the possibility of an unexpected scenario, but they are prone to inflated ideas about their capacity to handle them. When their resources are not enough, Plan B-ers expect to cope, to adapt, to "pull back," to be "okay." In these cases, "plans" are not necessarily carefully calculated strategies; instead they are often vaguely characterized adaptive scenarios. "[W]e're flexible. We'll go with the flow."

"We're willing to downsize if we need to." "If I have to pull back a long way I think I could live with that. I don't see that totally just blowing my life away or something. I think I'd still find quality."

Many identified fall-back plans, some of which might be characterized as desperation scenarios. "You know, swallow your pride and go to the free clinic if you need something." "I'd have to liquidate my house and that kind of thing." "I would have to go back into the workforce, if they'd have me."

The difference between a Plan B and a Plan A in these cases is that a Plan B does not actually involve planning. Few decisions or actions are required to "settle" on a Plan B and this type of thinker will have to settle for its limitations upon retirement.

Realists

As opposed to Wood Knockers and Immobilized Worriers, Realists awake to the day with both yesterday and tomorrow in mind. Realists in the study appear especially inclined to use the past to think about the future. They remember earlier unexpected scenarios, and draw lessons from them.

"We've talked about different economic scenarios and obviously what's happened…I've lived through the 1970s and what happened then, and 1980s and what happened then, and all the stock market crashes and things so we've talked about that. It's just in going forward, things could even be worse."

Realists have respect for unexpected scenarios, at least as they think and talk about them.

Stewers and Brewers

Stewers and Brewers have heard the alarm, but they are not "morning people." They take a long time to wake up and really get going. Stewers may fuss and fret, while Brewers play with ideas and planning strategies. For both Stewers and Brewers, anticipation about the future lasts a while, and may increase in intensity and frequency of thought. In this way, although they may be slow to plan, they are on their way. "[Long-term care insurance] has been brewing like in my mind probably about seven or eight years, [and I'm] feeling like we should look into it, should be getting onto it especially before [my husband] turns 60."

There are varying degrees of time and preoccupation spent on these concerns. And, for Stewers and Brewers, concerns about the future may not follow a fixed order of priorities, which has the potential to prolong the thinking and talking and to delay actual action. "One week it will be one discussion and the next week will be another."

Importantly, stewing and brewing that evolves into slow and steady planning can ultimately lead to solid action. "You just kind of start playing with ideas and then it just kind of goes step by step. It's all like this whole process moves along like a jigsaw puzzle, one piece affecting another." Just over one-third (36%) of survey respondents classify themselves as slow and steady problem solvers when it comes to responding to the unexpected.

Two types of thinkers, Compromisers and Preemptive Planners, take thinking and talking one step farther. They make decisions. They act. One-third (32%) of survey respondents report they respond to the unexpected boldly and decisively.

Compromisers

Compromisers are awake, alert, and going about their days, even as the alarm has sounded about what tomorrow may hold. Compromisers speak of the need to balance their current needs against future risks. Risk assessment becomes a significant part of their thinking; so does priority setting. "It's just a real balancing process." "We try to maintain a balance of saving some money for the future and enjoying ourselves while we are living.

Preemptive Planners

Preemptive Planners have heard the call and are up and at 'em. They go beyond planning for a retirement lifestyle; they plan in a way that defends against possible threats to that lifestyle. That is, they work to preempt those unexpected scenarios, or at least their consequences. "I want to have money there in case our pensions get reduced, or even disappear altogether." "If [my husband] dies, I can't just die with him; I have to have something that keeps me from the poorhouse." "Once we saw what happened to [my brother's] assets when he had his stroke, we decided, 'That's it. We are calling our agent today!"

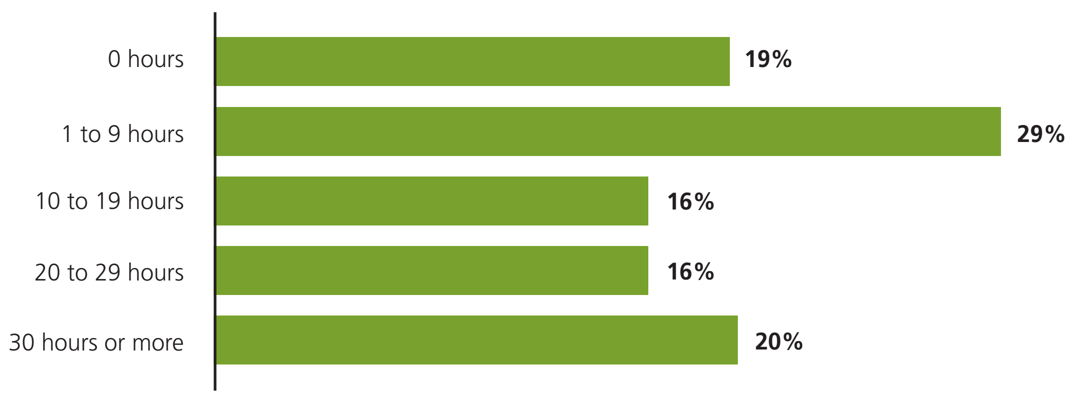
A Final Word About "Types" of Thinkers

Thinkers about the unexpected may not necessarily fall neatly into one of the above types or another, and if they do, they may not stay there. Each individual may have pieces of one type or another, or change from one time to another. They may be Snoozers about some unexpected scenarios, Wood Knockers about others, or Preemptive Planners about still others. One interviewee reflects a composite of types: "A great deal of it is out of your control anyway and I think for us the key is how do you have peace about that? You just have to say we planned this as well as we can based on circumstances at the time and we made the best decisions that we could being informed and I would say for us there is a faith component there too, but you get all the information that you can and you try to make an informed decision and then you have to go with it and trust and believe that you've done all you can do. Now go to sleep and rest and wake up tomorrow, and if everything goes to hell in a hand basket, then so be it. You'll deal with that too."

Thinking and Doing (or Not Doing)

Survey responses reflect the range of thinking types that emerged in the interviews; especially noteworthy is the range of doing something about it (planning and information gathering) reported. Three-quarters (74%) of respondents agree at least somewhat that they have all the information they need to plan for their retirement. On average, respondents have spent 15 hours over the past six months planning and gathering retirement information. The average hours spent is longer for those who had a major unexpected expense compared to those who have not (18 vs. 14 hours), so these types of incidents may serve as a "wake-up call" and draw attention to the need for planning. Nevertheless, for almost one-fifth of the respondents, their future retirement needs garnered no attention at all.

Figure 5: Time Spent over Past 6 Months Gathering Information or Planning for Retirement



Thinking and Communicating (or Not Communicating)

Although most single individuals make financial decisions on their own, other individuals make decisions not in isolation but in households of family members — often with different values, styles, statuses, and relationships. Couples in the interviews reflected a wide range of communication and negotiation styles and patterns. For couples who "see eye-to-eye" or are "on the same page," decisions require little negotiation; for other couples, negotiation is required to achieve financial peace in the household; for still others, financial decisions may be made by one partner, with little or no involvement from the other. The survey data show a correlation between couples' "compatibility" in financial decisions and their level of confidence in having adequate resources to last into old age. More than half (55%) of those confident about their retirement plans agreed very strongly that they saw eye-to-eye with their spouses/partners, while only two in ten (22%) of the not-confident reported the same level of compatibility. More than one in four respondents (27%) who lacked confidence in their resources indicated that they and their spouses did not make financial decisions together, whereas only one in ten (11%) of the "confident" said the same.

It is hard to tell from these data whether having financial problems discourages communication or whether a lack of communication and negotiation creates financial trouble in a household. The interviews suggest that making decisions together — especially the "big" ones — contributes to more satisfying decision outcomes, but that satisfying outcomes may also be achieved through tacit agreements or the forfeiting of decision-making "authority" from one partner to another.

Sometimes one partner is more involved in the thinking, information gathering, and calculating than the other. Compatibility in these cases requires a level of trust and confidence in the more active spouse or partner. Interviewees often defer to their spouses out of trust in their judgment and experience. "[My husband] has… always been on the right side of the decisions."

Yet, even in cases where one partner does most of the preliminary work, in the best situations, the ultimate decisions appear to be a product of discussion and involvement of both partners. "She initiates the idea and I come back with ideas… and we discuss it extensively before anything happens." Forty-three percent of survey respondents rely on their spouses/partners as resources when thinking about retirement decisions.

When couples don't see eye-to-eye in financial decisions, they may cope by engaging in some give-and-take. "[In the case of financial disagreements], one of us always wins; it's just not always the same person."

These findings suggest that although communication styles and patterns vary, finding a pattern that works in a household is important to successful financial decision making.

The Formidable Four Issues That Threaten Even the Best-Laid Plans

Four broad and formidable issues emerged from the study, identified because they are threats even to the best-prepared: 1) the impact of access to health care coverage on retirement decisions; 2) the impact of long-term care costs; 3) the story of the vanishing or eroding defined-benefit pension; and 4) the vagaries of the investment market, especially important for those closest to retirement.

Tenuous Health Care Coverage

Many retirement timing decisions have been dictated by health care coverage costs due to the absence, loss, or inadequacy of health care plans. More than one interviewee cited the availability of Medicare as essential to their ability to retire at age 65. Health care benefits were described as a major incentive to stay at work for some. "As long as I'm working I've got health insurance." "If I didn't have [a generous health care plan], my situation would be totally different. I would not [be retired], I would be working."

Two-thirds (65%) of survey respondents reported that they are very concerned or somewhat concerned about being able to afford health care in retirement.

For others, retirement is possible only because of access to a new source of health insurance or a continuation of employer-related coverage. "What enabled me to retire at 63 as opposed to having to wait until Medicare eligibility was that I could latch on to my husband's retirement health care policy."

Some interviewees report feeling uneasy about increasing premium costs. One couple who retired at about age 60 said, "[We] pay quite a bit on health insurance…My company [pays] a flat amount and as it goes up the increase is absorbed by us and not by them."

Even once the retirement decision is made, and even for Medicare beneficiaries, the prospective loss or erosion of health care coverage looms large for many. Rising costs are also a threat: "We knew [premiums] would increase as time went on and that that would become a big portion of our expenses, but it's increasing at a lot higher rate than we thought it would."

Long-Term Care Costs

Two-thirds of survey respondents reported concern (somewhat or very concerned) about providing for their own or their spouse's/partner's long-term care needs in retirement. Yet, less than one-third had estimated the costs of long-term care or added health care expenses in retirement. Only one in five had insured against long-term care risk.

Although several interviewees have thought all the way into the future to imagine the possibility of long-term care costs, not all are insured or self-insured against that risk. This appears to be where a lot of planning stops and significant risk-taking (or risk-choosing) begins.

Consider these contrasting stories:

- "Well, my mother was for a short time in nursing home care [and] they were to the point where they were starting to qualify for general assistance and that kind of thing…Dad's savings would have been sucked down to the minimum amount for him to keep, and he's still living independently, and five years since then, he still is. So I looked at that situation…how are you going to feel with this possibility? And we had two choices,…to self-insure or a long-term care policy…We chose [the latter]."
- "My mother has been in care for eight years with early-onset Alzheimer's and…I don't worry about having a heart attack and dropping dead. I worry about losing my mind, [but] we did not opt into any long-term care insurance, so that's probably the one open-ended question that remains for us."

Prolonged long-term care is considered a low-probability, but high-cost risk. The complete package of retirement readiness covers that risk in one way or another. A scenario that does not cover the risk of long-term care must be considered potentially problematic.

The Vanishing or Eroding Defined-Benefit Pension

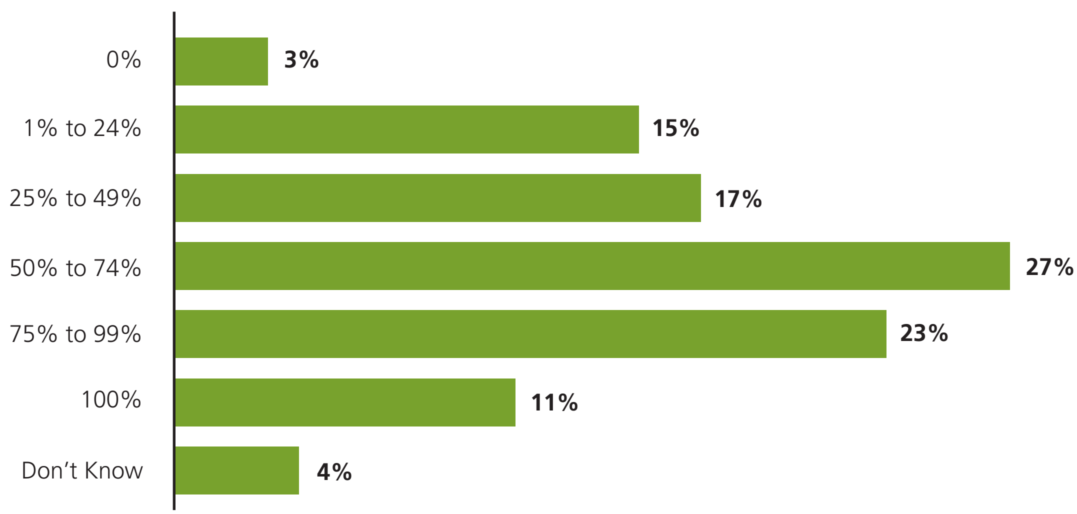
Of those surveyed who reported confidence in their retirement plans, well over two-thirds (68%) cited their guaranteed stream of income as a reason. Many of the interviewees (most of them in their 60s) enjoy the security of defined-benefit pensions and regard this guaranteed income as essential to their freedom to retire. "The defined-benefit plan is definitely the major portion of [our retirement]. We could live reasonably well on just my defined-benefit plan, [my wife's] defined-benefit plan, and Social Security."

"We would have made different investment choices if we didn't have [a defined-benefit pension]…"

Yet, such pensions are fast becoming a relic in the workplace. Employers have generally abandoned guaranteed income plans in favor of 401(k) plans. The cautionary tale that lies herein is the increasing importance of contributions to 401(k)s and/or other pension contribution devices. Some of the interviewees had experienced freezes or drops in the employer match to their 401(k)s and other interviewees "confessed" that they had not contributed sufficiently to their contribution plans.

It is important to note that even when interviewees have defined-benefit plans, their plans may have eroded or may never have been adequate to cover essential income needs in retirement. "I'm drawing a pension now…but that is not nearly enough to pay the bills." While 97% of survey respondents reported a guaranteed monthly pension, including Social Security, defined-benefit pension, and annuities, the monthly amount is less than 50% of total monthly retirement income for four out of 10 respondents.

Figure 6: Percent of Monthly Income Expected from Guaranteed Monthly Pension (Social Security, Defined-Benefit, Annuity)



The Vagaries of the Stock Market

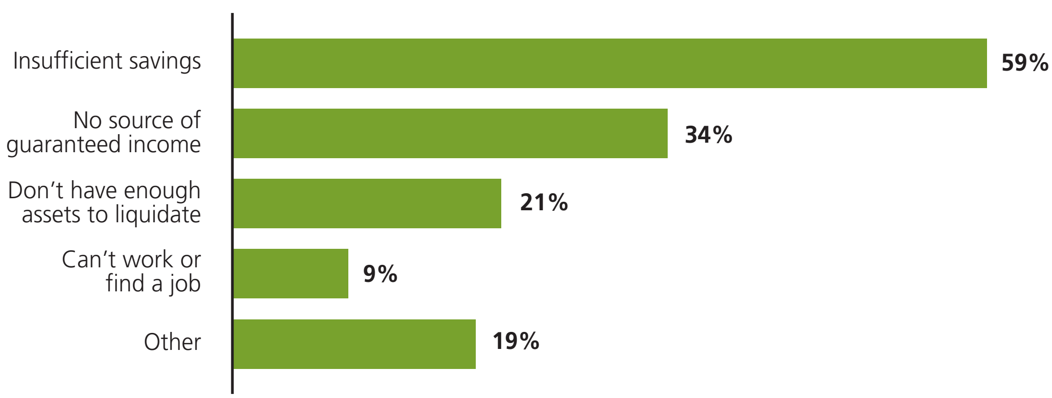
With retirement security increasingly reliant on the size and health of 401(k)s, it is especially important to have confidence in the market and the stability and adequacy of individual plans. The interviewees expressed varying degrees of confidence in the stock market, and in the futures of their 401(k)s. “Well, that stock market crash, you know, definitely took our savings down.”

“I’m not as confident as I was when I first retired. As most people did, I took a beating in the stock market...my 401(k) plans and...we lost about 20% of our plan.”

Only two in ten survey respondents report that they are very confident that they will have enough money to live comfortably if they or their spouse/partners live to 85+ years of age, and another six in ten (58%) are only somewhat confident. The remaining 22% are not confident in their retirement plans.

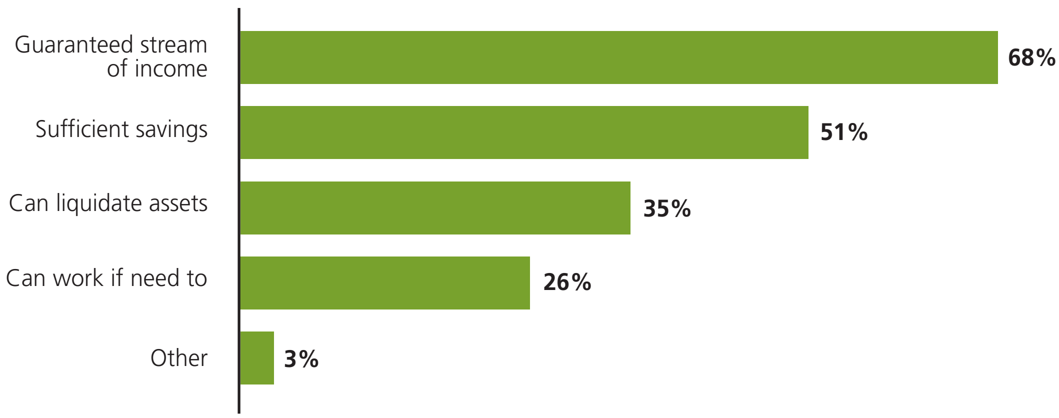
The issue of planning, being ready for a transition, and feeling confident about it is not only a matter of “who,” but of “what” as well. Having insufficient savings was the most frequently identified reason contributing to this lack of confidence about having sufficient funds to live comfortably beyond age 85, followed by not having sources of guaranteed income.

Figure 7: Reasons for Not Feeling Confident in Having Enough Money to Live Comfortably in Retirement



As a counterpoint, over two-thirds (68%) of those who did feel confident about a comfortable standard of living and a long life identified a guaranteed stream of income as a reason for their confidence, followed by 51% who identified sufficient savings as contributing to their confidence.

Figure 8: Reasons for Feeling Confident in Having Enough Money to Live Comfortably in Retirement



Best-Case Strategies

In spite of the many challenges identified, there are success stories: individuals and couples confidently arriving at retirement in good shape even in the face of the unexpected. Whatever their circumstances, they have a strategy to make the best of things. Those who have put together a Best-Case Strategy have not necessarily had it easy. They have been tossed the same setbacks and hardships — the unexpected scenarios — that beset others, including job losses, major illnesses, economic hits, the death of a spouse, off-schedule retirement, caregiving demands, and even loss of housing. Many came from families with limited means, and many started their careers with limited means. As strategists, they have planned but they've also adapted, arriving at retirement with the security and flexibility they need for what lies ahead.

So, who are these Best-Case Strategists and what does it take to become one? They want, like the rest of their peers, a security in later life. Their strategies are designed to achieve "peace of mind," a "security blanket," an assurance that they will "not be a burden" to their families. They have planned for a retirement lifestyle, and preemptively, against perceived threats to it.

That said, their retirement expectations are quite different from one another. In terms of lifestyle, some seek to travel, while others prefer to stay put and slow down. Some look forward to volunteering or mission work ("to give something back to society"), while others expect to luxuriate in passions such as reading, gardening, sports, and the arts. Some immerse themselves in grandparenting, while others renew or revitalize relationships with friends. And some actually work because they want to (and not because they have to).

In terms of finances, some Best-Case Strategists have planned for just enough resources for their own security, while others are determined to have resources that can be shared with others (such as children) either now or through an inheritance left behind. Some are content to strategically spend down or use their resources while some are determined to grow their wealth even in retirement. This means that the amounts and percentages of required resources available upon retirement vary from individual to individual and family to family. The planning itself, then, is geared accordingly.

When the unexpected happens, Best-Case Strategists are in a position to respond with options and flexibility. Yet, importantly, their bags are packed with contents that vary from one individual or family to another. It is clear that there is no single way to achieve financial security in retirement. Although most Best-Case Strategists have multiple sources of retirement income and assets, the types of sources varied by such features as the presence or not of a defined benefit plan; 401(k)s; other investments; eligibility for Social Security; annuities; and health insurance. They also vary by the relative importance of one source over another, within individual cases. For example, some bags are packed with guaranteed income-dominant security, some with 401(k) or IRA-dominant security, and others with a balance of the two. What is it, then, that creates a Best-Case Strategy? Although their sources of retirement readiness may be different, Best-Case Strategists have a lot in common.

A Best-Case Strategist…

A Best-Case Strategist…

- Has a sense of self-reliance
- Thinks about the future — all the way to the end
- Anticipates…or, expects the unexpected
- Designates a budget column, today, for a future self
- Sets and lives by personal financial rules
- Stops, sits down, and focuses on the future…and talks about it
- Engages in the "What ifs?"
- Puts pencil to paper (or cursor to screen); Does the math — all of it
- Gathers information
- Seeks advice
- Gets the house in order — literally
- Starts as soon as possible

Has a Sense of Self-Reliance

Many Best-Case Strategists come from backgrounds of hardship. Still others come from families of planners and savers. Both backgrounds emerged in the study as important to the development of an empowering sense of self-reliance: "I was the child of depression-era parents, growing up fairly poor and having to work for everything." Or, "I come from a background of extreme planning." Although these are not necessarily privileged people — in fact, they are quite ordinary — many describe themselves as "fortunate," "blessed," or "lucky." In general, they have worked hard, and they also acknowledge that they have seized the opportunity to save and plan.

Background certainly matters, but self-reliance is an acquirable trait, as demonstrated by several couples. "Once I married into [my wife's] family, I could see a totally different side. As I started [saving], I loved it."

Thinks About the Future — All the Way to the End

Best-Case Strategists not only look ahead, they estimate their life expectancies and then imagine the ways that life will change as they age. When asked how long each expected to live, nearly every one of the interviewees referred immediately to the ages of their parents and to their own health histories and behaviors as "something to go on." "I don't want to plan for living to be 70 and then live to be 90."

Beyond planning with a number of years in mind, the quality and characteristics of those years matter to people who think all the way to the end. Many describe their imagined futures as stages of change. Several imagine a "down-sized life." "Of course we have done some imagining…We…plan on tightening the circle, moving things closer and closer to home, doing less and less of the travel and more and more of…being in our home." Ten percent of survey respondents report that they think about the future all the way to the end of their lives.

Finally, thinking about the future all the way to the end requires thinking about one of the more difficult realities of aging: the associated risk of disability and related long-term care costs. "You only have so many good years at this point." The best of the Best-Case Strategists had planned for this risk by either self-insuring for long-term care or by purchasing long-term care insurance.

Anticipates, or Expects the Unexpected

Best-Case Strategists are decidedly realistic about the unexpected. They have been good students of lessons learned from their own histories and/or the experiences of others. "I don't like surprises, and I know life is full of them, good and bad. So, we'll take the good and won't let the bad catch us too off guard."

"We know we can't predict the future and…what makes us think the bad luck will only happen to someone else? Maybe we've had all the good luck we're gonna get."

This characteristic appears essential to comprehensive planning and it speaks especially to the need for preemptive planning.

Designates a Budget Column, Today, for a Future Self

Stories of thrift and saving or investing for the future are core themes among Best-Case Strategists. "We actually have savings back for the unexpected. From the day we were married, we had savings back in case something would happen." "We work hard, maximize income, live beneath our means, save, and plan."

Interestingly, savers appear to save not just for the future, but for the love of saving itself. They experience saving and investing as a source of satisfaction as opposed to deprivation. "I love the feeling of it." Many wear the "savers" lifestyle as a badge of honor. Among the terms used to describe themselves are: "thrifty," "frugal," "cautious," "conservative," "cheap-but-in-a good-way," and "self-reliant."

In terms of preparing for retirement, saving stood out as the most common theme among survey respondents as to "the one thing" they would do differently; many would start saving earlier (29%), some would save or invest more (12%), and others would make better investments (4%).

Sets and Lives by Personal Financial Rules

Many Best-Case Strategists describe important rules devised to help them achieve their goals. For example, one two-car couple drives each car for 10 years, making one new-car purchase every five years on a rotation plan. They have stuck to this plan for their entire married life, nearly 40 years, and estimate that it has "saved" them at least $100,000, which they have in turn invested. Eleven percent of survey respondents report they live by personal rules they've set for themselves.

Examples of other household rules include living without credit cards or paying them off each month; saving a set percent of monthly income; and living by set ratios of car or mortgage payments to income.

Stops, Sits Down, and Focuses on the Future… and Talks About It

Best-Case Strategists have had — and most still have — very active lives. Yet all have carved out time for planning, stopping in the middle of their busy lives to sit down and concentrate on the future. "For long-range plans, we go into the family room, sit down, and talk about it." "We sit down at the table and look at our options." This simple act of stopping to focus on the future even when over-whelmed with today's demands is essential to preparing for both the expected and the unexpected. Importantly, couples who have found a communication pattern that works for them may find stopping to focus easier than others. "It wasn't a case of one person pushing it and one person being reluctant. I think we were both at the exact same point on it."

Engages in the "What ifs?"

Best-Case Strategists are determined to cover the bases as they imagine their possible futures. "If 'X' happens, what will I do"? As strategists, they look at the future from multiple angles in order to develop a proactive response to each. In this sense, "What ifs?" are unexpected scenarios brought to the forefront of one's thinking.

"I think, 'What if?' things like, what if I retire when I'm 58, you know, what does that mean and what do I have to do? So I think I am a little bit of a strategist and I think through different scenarios and try to figure out what options I might have and what kind of things I might be able to do."

Almost half of the survey respondents take this approach and plan for the most likely scenarios (43%) but few make a detailed plan for *all* of the possibilities (3%).

Puts Pencil to Paper, or Cursor to Screen; Does the Math — All of It

Doing the math requires putting the "What ifs?" on paper, setting a clear goal for retirement, and understanding its costs. Generally, Best-Case Strategists do an "essentials" (monthly needs) calculation and a luxuries calculation, and then determine what it takes to do both. "We're…making sure that we have our monthly income needs met, and beyond that, do we have enough set aside to cover inflation, and do we have enough set aside so that if we would like to do something or purchase an item, we can say, OK, we can do that..."

The majority of survey respondents (78%) have done the math about retirement income and expenses. They know the amount of their likely retirement income (62%), and have calculated annual essential expenses (53%): they are less likely to have calculated the amount of non-essential expenses (34%), and estimated the amount of possible additional expenses (29%), however.

Doing the math can alter a plan. One wife said, "[The math] was sobering. It scared me. I decided I don't want to retire on a whim just because things are bothering me [at work]. So, I can't retire [now]. I don't want to be sorry."

Importantly, doing the math is not a one-time thing. Resources and expenses change in both predictable and unpredictable ways, and the math has to account for that.

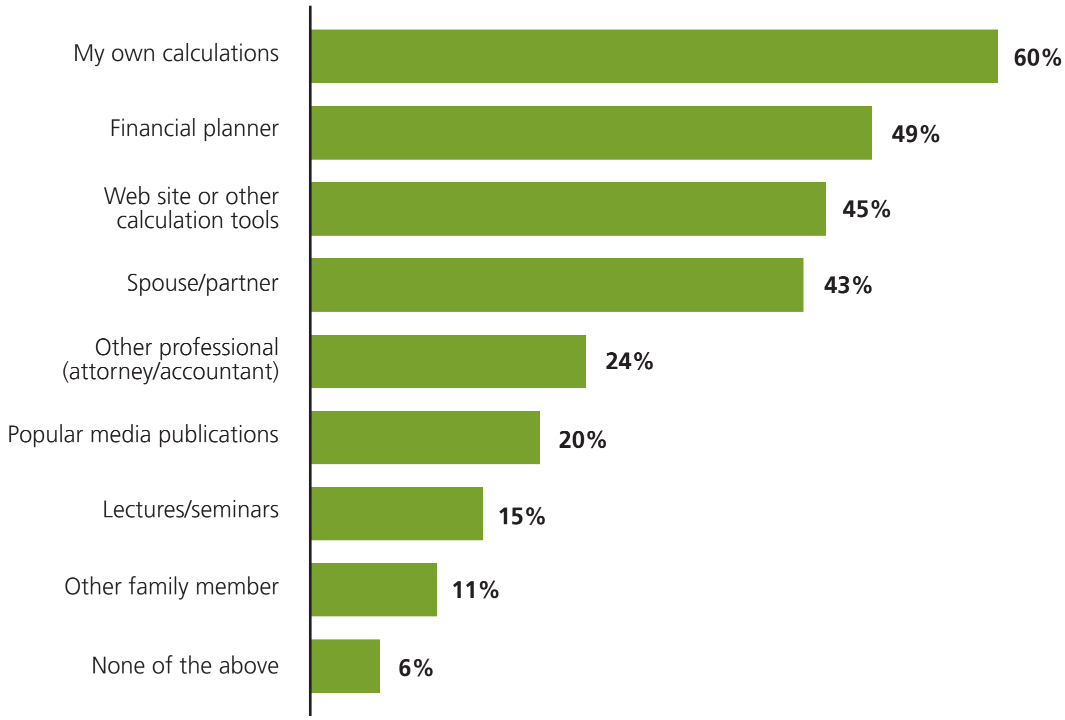
Some couples give the math a "trial run." One couple lived for a few years before retirement on their calculated retirement income. Not only did this give them confidence in their plan, but allowed them to save even more for the future.

Gathers Information

As one of the Best-Case Strategists said, "More information makes for a better choice." Many interviewees have attended retirement and financial planning seminars, whether offered through their employers or through the marketing and outreach strategies of banks, credit unions, and financial planners. They also describe "a lot of self-study," seeking information on their own, using the Internet, books, and online planning tools. "We just read, and read, and read."

Survey respondents most often rely on their own calculations when thinking about retirement decisions, but they also turn to other resources as well.

Figure 9: Resources Used for Retirement Decisions



Seeks Advice

Nearly all of the Best-Case Strategists, even those with degrees in business or accounting or the like, seek advice from professionals or well-informed others. Nearly all have used financial planners, although the roles of the planners vary. Financial planners are described as "guides," "teachers," "listeners," "reality checks," "second opinions," "counselors," "math geeks," "gurus," "consultants," and "facilitators."

Individuals and couples who use financial advisors and planners do not do so passively or submissively. "I've always managed my own finances, done my own taxes, and paid attention to financial news...I listen to my broker on some planning things...I've taken my spreadsheet and discussed it, but it's been my plan and my initiation."

Gets the House in Order — Literally

Many speak of the need to attend strategically to their housing (a major life expense) as they prepare for their retirement. This appears to be critical to a sense of security and readiness. "We recently started some refurbishing of our house. We feel that when we retire we would not like to have everything start to crumble around us."

Several have paid off the mortgages on their houses. And some have made decisions to relocate into housing that is "aging friendly." Others have plans for remodeling toward such an objective, and still others imagine incremental moves to correspond with anticipated declines in physical functioning. "We see it as kind of an evolution that the next house will be a ranch, the next will be [a] retirement apartment complex…We know that there's a gradual decline in what we can do physically."

Starts As Soon As Possible

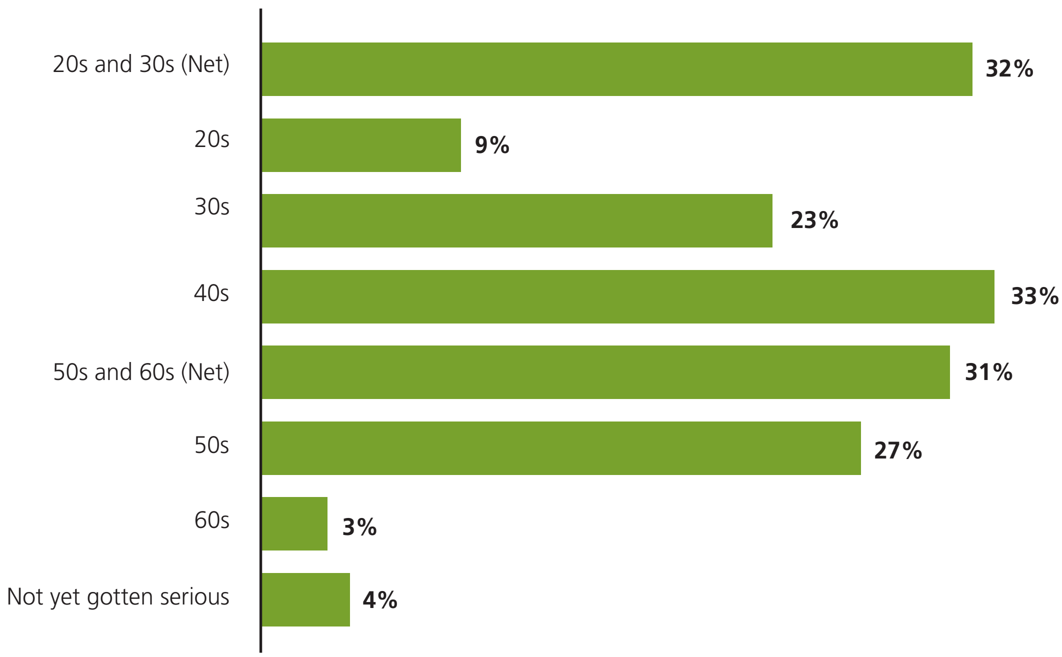
Many, but not all, Best-Case Strategists have particularly long histories of long-range planning: "In our 30s, we really began to focus on a retirement date," and "We've been planning for retirement since we were 19 and 20."

The focus and intensity builds over the years. "When I was in my 30s, I started thinking about it...We put three children through college…so when we got some of the kids out of college, we really started saving. What changed? Well, I mean, it gets closer. If you think about it, [at first] it's a hypothetical thing. When you start getting into your 50s, it becomes very real. I think that's one of the things that changes. You just get older and you get closer. It starts to get serious then."

Importantly, some interviewees went into high retirement-planning gear later in their work lives. They had "overslept." "I am in do-or-die mode…but I think I might make it." Their experiences suggest that while long histories of planning are preferable, planning later is preferable to never having planned at all.

A third (32%) of survey respondents report they started to get serious about retirement income and expense decisions in their 20s and 30s. Another 31% report they didn't get serious until their 50s and 60s.

Figure 10: Age Respondents Started to Get Serious About Retirement Income and Expenses



Becoming a Best-Case Strategist

What would it take to get a better handle on what needs to be done to achieve more financial security, and peace of mind about retirement? The survey respondents who indicated that they were not concerned about outliving their retirement income provided insights into what made the difference between being concerned about their retirement or not. Get a handle on what your income and expenses will be. Seventy-one percent of them stated that they have "done the math" and know the amount of their likely retirement income and assets from all expected sources.

- When you do the math, start with your own estimates and calculations, but get support from financial planners and other financial professionals, your spouse or partner, and calculation tools and resources on the Internet.

- If you didn't start as early as you would have liked, then start as soon as you can. Almost half (46%) stated that if there was one thing they could do differently it would be to start saving, investing, and contributing to retirement income sources earlier than they did.

- If and when the unexpected happens (i.e., a loss of income, an unexpected need for significant additional dollars), be prepared to act, but after some planning. As a response to the unexpected, being a consistent, slow and steady problem solver and taking bold, decisive action were equally noted in the survey, and especially evident among those confident in their retirement security.

- You can be prepared to deal with the unexpected when it occurs but plan for at least the most likely scenarios, circumstances, and the contingency plans that allow for a quick response.

- Have a contingency financial plan in case your plans/circumstances unexpectedly change. Having one differentiates those who are concerned about outliving their retirement income compared to those who are concerned.

These simple, achievable steps involve some work, some time, and reaching out to others, but the payoff can be invaluable.

Conclusion

This study peels back the many layers of retirement thinking, experiences, and behaviors. One conclusion: "Nothing is as simple as it seems."

Retirement timing is not a simple equation of the lure of retirement vs. the pull of work. There are multiple ways in which retirement timing can be thrown off-schedule, and this is especially complicated for couples.

Alarms about retirement risks do not inevitably or immediately prompt retirement planning. The several types of thinkers about the future suggest people are not easily awakened to retirement risks. In fact, alarms may produce inaction rather than action. Planning also takes time. Finally, people are willing to compromise, and leave some level of risk uncovered in exchange for more immediate needs or lifestyle choices.

Retirement expectations are not necessarily high expectations. Not everyone wants the same kind of retirement. While some expect their lives to expand, others are ready for it to contract. Many people are ready for a down-sized life, and some even welcome it.

Becoming a retirement strategist is not a simple matter of responsibility and self-discipline. An imposing set of circumstances and characteristics (from creating the resources in the first place, to being able to imagine a long future, to having the necessary information) must be in place to achieve the Best-Case Strategy. As one retiree said, "Retirement is hard work."

Individuals and couples engage in the "hard work" of retirement planning while social forces such as health care costs and market trends bring pressure to bear on the best-laid plans. As individuals and families assume more and more of the risks of retirement they are more and more vulnerable to these forces, and the work gets harder…but can be done.

Implications

Findings from this study have different implications for different people. Those who are in "good shape" for retirement and who find themselves identifying with Best-Case Strategists are likely to be encouraged by what they read, even as they take heed from cautionary tales. They should "keep up the good work," stay informed and in touch with their advisors, enjoy the rewards of their good fortune and good planning, and be ready to adapt as needed.

Those individuals who are not fully prepared should first assess what types of thinkers they have been. Are they Active Resisters? Wood Knockers? Plan B-ers? With new insight, they can adjust their thinking, and then take lessons from the Best-Case Strategists. Have they thought about the future, all the way to the end? Have they engaged in the "What ifs?" Have they done the math then designated resources today for their future selves? Are they communicating and negotiating with their spouses, partners, or important others? Do they have the information they need? Are they seeking and using advice?

Individuals who have been snoozing or resisting or wood knocking might now regard themselves as having overslept. A Best-Case Strategy may seem out of reach. It may feel like it's already "too late," but that mindset would be a mistake. It is NOT too late to learn from Best-Case Strategists and to take seriously the challenges of retirement planning. It is also possible to work toward a "good-enough" retirement even when a dream retirement appears elusive. The study demonstrates very clearly that retirement aspirations and needs vary widely from one individual and family to another. It is important to decide when it is and is not helpful to compare oneself and one's circumstances to others.

All individuals should be braced for surprises, from the timing of retirement, to unexpected events that beset them, to the broad social and economic forces that call for changes in both thinking and behavior.

The sheer range and complexity of how people think about it is a reminder of the challenge that financial professionals, employers, policy makers, program developers, and product developers face in facilitating effective retirement planning among individuals and families. Be it financial and retirement planning, product design, marketing, public policy, or public education, one size does not fit all.

Clearly, there is no single road to retirement security. There are too many variables to suggest a universal package. In general, financial planners and planning tools do a good job of taking individual values, preferences, and resources into account in order to achieve the "best fit" for individuals, and families. This first requires that individuals and families assess and consider adapting what types of thinkers they are about their futures. With that accomplished, advisors, planners, individuals, and families can work from the common approaches of Best-Case Strategists to arrive at optimal retirement planning.

Methodology

The study was produced by the MetLife Mature Market Institute in conjunction with Scripps Gerontology Center. Fifty in-depth (approximately one-hour) telephone or face-to-face interviews were conducted with 74 interviewees in 15 states across the U.S. The interviews included 38 men and 36 women nearing retirement (within about 10 years) or recently retired (no more than six years). Sixty-eight of the interviewees were White, four were African-American, and two were Asian-American. Of the 50 interviews, 23 were conducted with couples and 24 with individuals. Married couples and domestic/same-sex partners were interviewed as well as divorced, widowed, and never-married individuals.

Occupations were especially wide-ranging, including coal miners, clergy, health care professionals, accountants, business owners, military officers, civil service workers, homemakers, educators, and corporate managers. Educational levels ranged from high school to doctoral and professional degrees. Household annual incomes were at least $75,000 (pre-retired individuals); $100,000 (pre-retired couples); and $45,000 (retired individuals or couples). Almost all participants had investable assets of at least $100,000.

Some interviewees had worked for the same employer for decades and others had moved from job to job or career to career. Some were self-employed. Most interviewees had defined-benefit pensions (some level of employer-funded guaranteed retirement incomes), but several did not.

Individuals and couples who were especially comfortable talking about personal finances and lifestyle decisions and who felt especially confident about their retirement planning and decisions were arguably more likely to agree to be interviewed, leading to a predominance of relatively positive stories. People who find talking about finances difficult and who face more difficult times ahead are less present in the interview component of this study.

Quantitative information was obtained from a survey of 1,007 U.S. residents, ages 50 to 70 with $50,000 or more in household income, and $100,000 or more in investable assets. The survey was conducted online by Harris Interactive in November 2010. Data were weighted for age, sex, race/ethnicity, education, region, and household income. Propensity score weighting was also used to adjust for respondents' propensity to be online.

Endnotes

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