

WHAT A DIFFERENCE A YEAR MAKES

A Supplemental Report on the Impact of the 2008–2009 Financial Crisis

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CONTENTS

| | Page |
|---|-------------|
| WHAT A DIFFERENCE A YEAR MAKES | 4 |
| Introduction..... | 4 |
| Major Themes..... | 4 |
| RETIREES FEEL LESS SECURE AFTER THE CRISIS | 5 |
| RETIREES ARE LESS CONFIDENT THAT THEY HAVE SAVED ENOUGH FOR RETIREMENT | 6 |
| RETIREES HAVE BECOME MORE CONSERVATIVE AND LESS WILLING TO TAKE RISK..... | 7 |
| RETIREES ARE TRYING TO CONTROL SPENDING | 8 |
| INCREASE IN PERSONAL FINANCIAL ADVISORS..... | 9 |
| OTHER OBSERVATIONS..... | 10 |
| CONCLUSION | 11 |

FIGURES

| | Page |
|---|-------------|
| Figure 1 Now as Financially Secure as Thought When First Retired, 2008 vs. 2009 | 5 |
| Figure 2 Level of Confidence for Having Saved Enough Money to Live Comfortably Throughout Retirement, 2008 vs. 2009 | 6 |
| Figure 3 Level of Risk Tolerance for Managing Household Investable Assets, 2008 vs. 2009 | 7 |
| Figure 4 How Retirees are Spending Their Money, 2008 vs. 2009 | 8 |
| Figure 5 Retirees with Personal Financial Advisors, 2008 vs. 2009 | 9 |



WHAT A DIFFERENCE A YEAR MAKES

INTRODUCTION

The financial environment changed dramatically between 2008 and 2009. To measure the effects of the financial downturn on retirees' finances, in 2009 the Society of Actuaries (SOA), LIMRA and the International Foundation for Retirement Education (InFRE) resurveyed respondents of a 2008 study.

The original 2008 study of 1,524 retirees ages 55 to 75 with \$100,000 or more in household investable assets was conducted in February 2008, prior to the financial downturn. It was conducted to gain an understanding of how retired individuals with investable assets make decisions about investing their assets and purchasing financial products. The study resulted in the 2008 report entitled "Will Retirement Assets Last a Lifetime?"¹ The motivation for updating this study was to assess how the 2008 financial crisis and economic downturn impacted the original survey participants.

The 2008 participants were re-contacted in April 2009 and posed a subset of the original questions via an online survey. In this follow-up report, the results of the 1,011 respondents in 2009 are contrasted with the results of the original 2008 study.

MAJOR THEMES

Several major themes are apparent from the 2009 results. Overall, it is evident that the financial crisis has impacted aspects of the current mindset and financial outlook of these retirees. Retirees now:

- Feel less secure after the crisis
- Are less confident that they have saved enough for retirement
- Have become more conservative and less willing to take risk
- Are trying to control spending
- Are more likely to have personal financial advisors

¹ The 2008 research report jointly sponsored by the SOA, LIMRA and InFRE.

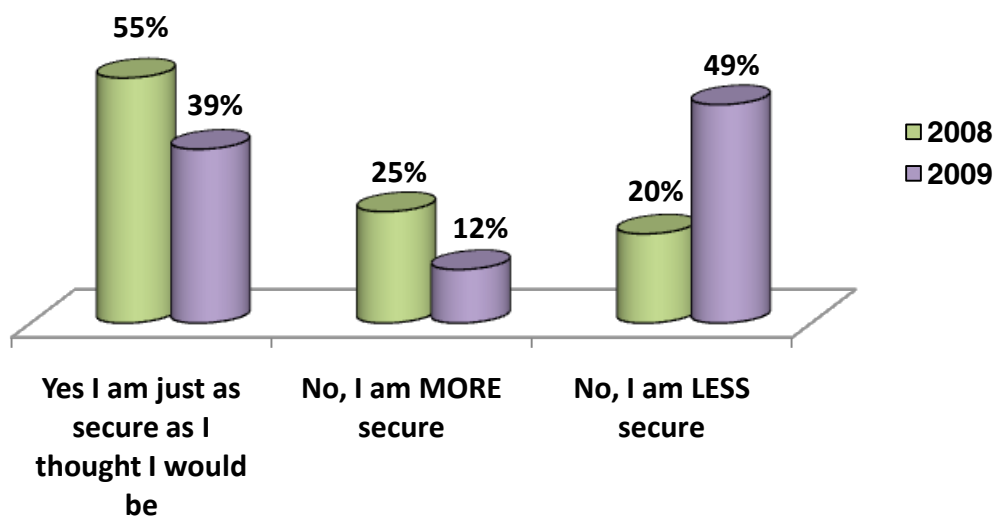
RETIREES FEEL LESS SECURE AFTER THE CRISIS

Are you as financially secure now as you thought you would be when you first retired?

The largest change seen in the past year is a significant shift in the portion of retirees who now feel *less* financially secure than when they first retired. In 2009, almost half of the retirees are feeling less secure than when they first retired (Figure 1). This is more than double the percentage of retirees who reported to be less secure in the 2008 study (49 percent and 20 percent, respectively).

Today, the portion of retirees feeling *more* financially secure than when first retired is less than half of that reported in 2008 (12 percent versus 25 percent). Even among retirees who feel they are just as financially secure today as when first retired, the proportion has dropped to 39 percent from 55 percent in 2008.

Figure 1
Now as Financially Secure as Thought When First Retired
2008 vs. 2009



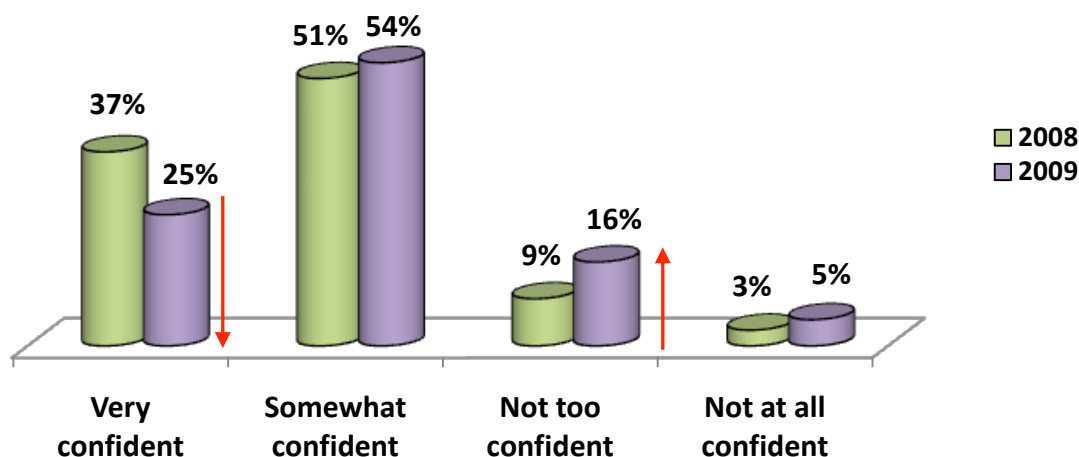
RETIREES ARE LESS CONFIDENT THAT THEY HAVE SAVED ENOUGH FOR RETIREMENT

How confident are you that you saved enough money to live comfortably throughout your retirement years?

In 2009, 25 percent of the retirees are still very confident that they have saved enough for a comfortable retirement compared to 37 percent before the 2008 financial crisis (Figure 2). The proportion that are somewhat confident they have saved enough increased slightly from 51 percent to 54 percent (it should be remembered that this is a relatively affluent group of retirees).

As one might expect, the downward turn of the economy brought about an increase in the proportion of retirees who lack confidence in having saved enough money for a comfortable retirement—increasing from 12 percent to 21 percent. The proportion who responded that they are “not too confident” went from 9 percent to 16 percent while retirees who are “not at all confident” increased from 3 percent to 5 percent.

Figure 2
Level of Confidence for Having Saved Enough Money to Live Comfortably Throughout Retirement
2008 vs. 2009



RETIREES HAVE BECOME MORE CONSERVATIVE AND LESS WILLING TO TAKE RISK

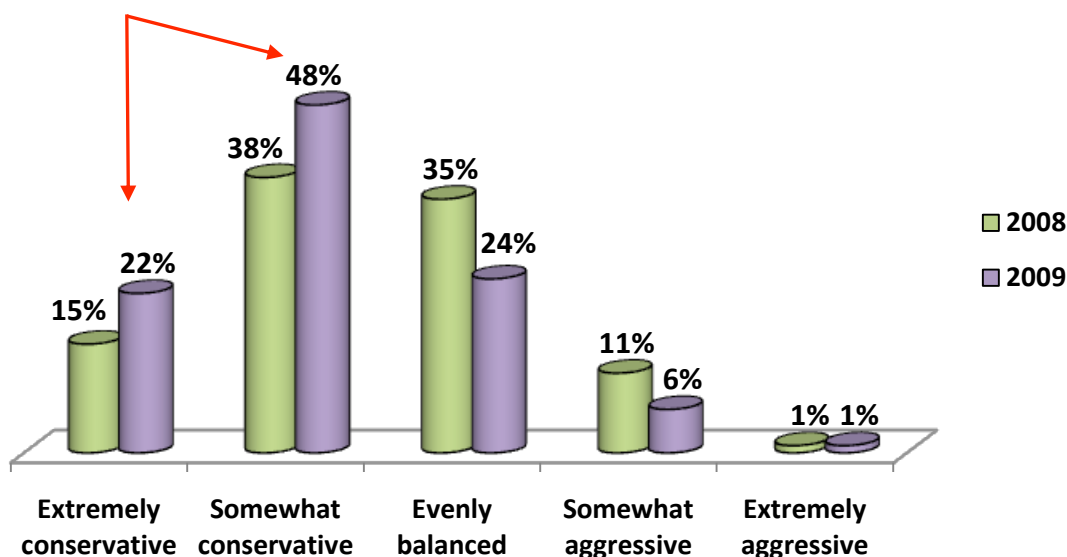
How would you describe your risk tolerance level for managing your household's investable assets?

The proportion of retirees describing themselves as conservative increased from 53 percent in 2008 to 70 percent in 2009 (Figure 3). Today, 22 percent of retirees are *extremely* conservative while almost half are *somewhat* conservative. Roughly one in four retirees report they are evenly balanced when it comes to risk tolerance. Not surprisingly, fewer retirees say they are aggressive than in early 2008 (7 percent versus 12 percent, respectively).

Less than half of the retirees (43 percent) say they changed their risk tolerance in the last 12 months. The top reasons that retirees give for changing their risk tolerance are:

- Concern about the economy 79 percent
- Concern about future inflation 45 percent
- Not enough time to recover from downturn 39 percent
- Value of house changed 28 percent

Figure 3
Level of Risk Tolerance for Managing Household Investable Assets
2008 vs. 2009

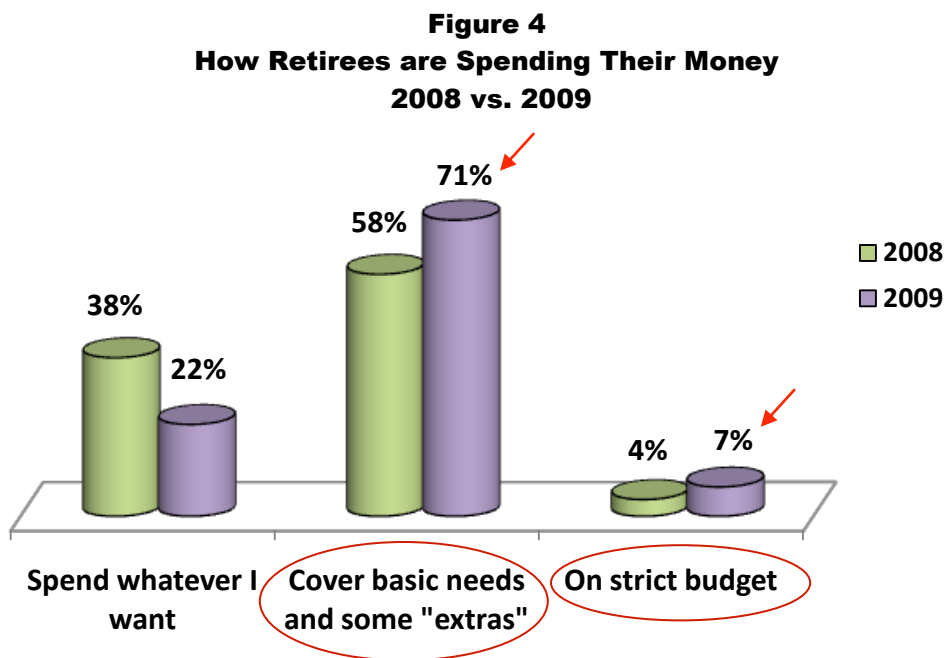


RETIREES ARE TRYING TO CONTROL SPENDING

How are you currently spending your money [in retirement]?

Today, retirees are not feeling as free to spend their money on whatever they wish. Only 22 percent of retirees spend whatever they want compared to 38 percent in 2008 (Figure 4). This decrease is offset by the 13 percentage point increase in retirees whose money is covering basic needs and some extras (58 percent to 71 percent). In addition, there was a modest increase in those who are now on a strict budget (4 percent to 7 percent).

Retirees are likely watching their spending to stretch their dollars further in reaction to the crisis. Some retirees may find this strategy has limited effect if basic needs already consumed a large portion of their overall spending prior to the financial crisis.

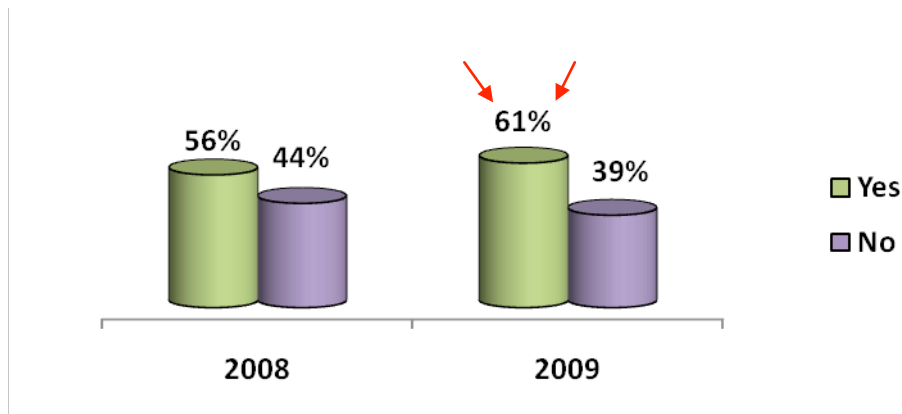


INCREASE IN PERSONAL FINANCIAL ADVISORS

Do you currently have someone you consider to be your personal financial advisor?

During the financial turmoil, more retirees recognized the need for personal financial advice. Today, a higher proportion of retirees have someone they consider to be their personal financial advisor than in early 2008, 61 percent and 56 percent respectively (Figure 5). This increase may be indicative of an effort on the part of retirees to boost their confidence in their current investment approach or implement desired changes to stem the losses sustained during the financial crisis. Whatever the reason, trust in financial advisors has not waned; advisors continue to have opportunities to assist retirees at retaining and growing their assets.

Figure 5
Retirees with Personal Financial Advisors
2008 vs. 2009



OTHER OBSERVATIONS

- There continues to be relatively little interest in purchasing an annuity among retirees who are not receiving enough income from Social Security and/or employer-sponsored defined benefit (DB) pension plans to cover basic living expenses.

Similar portions of retirees in the 2008 and 2009 studies report not receiving enough income from Social Security and/or DB plans to cover their basic living expenses without using their savings (45 percent and 47 percent, respectively). The level of interest in securing more guaranteed life income changed little over the past year. Among retirees who lack funds to pay basic expenses, only 31 percent are interested in converting a portion of their savings into guaranteed life income—an increase of 2 percentage points since 2008.

- Among all ages surveyed, fewer retirees are working in 2009 compared to 2008. It is not clear whether this reflects fewer opportunities for work or increased health issues, etc.
- In 2008, nearly three in 10 retirees had not estimated how many years their assets and investments *might* last in retirement and an additional one in 10 retirees had never thought about it. Today, a slightly larger proportion of retirees are reporting that they have not estimated this figure—34 percent have not estimated how long their assets and investments might last and 11 percent have not thought about it. The slight increase may be the result of retirees not wanting to face reality in light of the economic downturn.
- When asked how many additional years retirees assume their retirement funds *need* to last, the 2009 results indicate shorter timeframes than the 2008 results. This may be indicative of retirees wanting to deal with a shorter time horizon after a crisis. It is also consistent with the views of the retired participants of a series of focus groups that preceded the 2008 survey.²
- In 2009, fewer retirees acknowledge that assets and investments need to last at least 20 additional years than in 2008 (48 percent versus 65 percent). There is also a decrease in the proportion of retirees who have been retired less than five years who say their funds must last at least 25 years (36 percent in 2009 versus nearly half in 2008). Other research shows that many people underestimate this number. Personal health and family history are the most common factors used to estimate how long retirement resources need to last.

² *Spending and Investing in Retirement: Is There A Strategy?*, the Society of Actuaries and LIMRA, 2006.

CONCLUSION

The retirees participating in both the original 2008 survey and the 2009 follow-up study have reacted to the financial crisis by:

- feeling less confident and financially secure,
- becoming more conservative in both their risk taking and spending, and
- seeking out additional advice.

It will be interesting to see whether or not these trends signify a permanent change in the mindset of these retirees, or whether a reversion takes place as the full effects of the financial crisis begin to recede. In this regard, revisiting these retirees in 2010 could prove quite insightful.

Readers are encouraged to view the complete results of the 2008 survey and 2009 follow-up study. More detailed information on the 2009 results as well as further background information and the complete 2008 report “Will Retirement Assets Last a Lifetime?” can be found at:

- International Foundation of Retirement Education (InFRE) — www.infre.org
- LIMRA — www.limra.com
- Society of Actuaries (SOA) — www.soa.org

This report was jointly sponsored by the Society of Actuaries (SOA), LIMRA, and the International Foundation for Retirement Education (InFRE). Questions or comments may be addressed to:

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