Insured Retirement Institute

Work and Retirement

Current Workers Expectations vs Retirees Real Experience

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About the Insured Retirement Institute: The Insured Retirement Institute (IRI) is a not-for-profit organization that for twenty years has been a mainstay of service, commitment and collaboration within the insured retirement industry. Today, IRI is considered to be the authoritative source of all things pertaining to annuities, insured retirement strategies and retirement planning. IRI proudly leads a national consumer education coalition of nearly twenty organizations and is the only association that represents the entire supply chain of insured retirement strategies: Our members are the major insurers, asset managers, broker dealers, and more than 150,000 financial professionals. IRI exists to vigorously promote consumer confidence in the value and viability of insured retirement strategies, bringing together the interests of the industry, financial advisors and consumers under one umbrella. IRI's mission is to: encourage industry adherence to highest ethical principles; promote better understanding of the insured retirement value proposition; develop and promote best practice standards to improve value delivery; and advocate before public policy makers on critical issues affecting insured retirement strategies and the consumers that rely on their guarantees. Visit www.IRIonline.org today to experience the vast resources of the Insured Retirement Institute for yourself.

Overview

What is the relationship between work and retirement? Are the two compatible? The traditional view is one engages in a full working career of 40 years then leaves the workforce entirely to enjoy a life of leisure in their golden years. Yet IRI research found 64.4% of Baby Boomers and 70.0% of Generation Xers stated that work in retirement will be a source of retirement income. Data from the Employee Benefit Research Institute (EBRI) supports this as part of a long-term trend. EBRI shows participation in the labor force for individuals age 65 and over, the traditional retiree group, increased from 10.7% in 1986 to 17.9% in 2011. This data shows that working in later ages is a trend, which pre-dates the "Great Recession".

The impact of the Great Recession is a significant contributor to Americans making changes to their retirement plans. The losses incurred to retirement savings plans and reduced value of housing has forced many Americans to postpone their retirement and/or rethink the relationship between work and retirement. For example, according to IRI, in 2012, of those individuals who stated work in retirement will be a source of retirement income, 29.5% of Baby Boomers and 31.4% of Generation Xers stated that work would be a major source of income.

This paper will show while work can be a component of retirement income it should not be relied upon as the data show pre-retirees expectations do not match retiree's experience. This will be accomplished through examining the relationship between work and retirement looking into the following issues:

1) Timing of retiring from career work
2) Phased retirement
3) Working for pay while in retirement

The paper will conclude with how insured products combined with some work related income are complementary components of an overall retirement income strategy.

Key Findings

- IRI research found about one-third of Baby Boomers (34.9%) and one-quarter of Generation Xers (25.1%) reported they are planning to retire at age 66 or older. Yet a significant percentage of individuals in both generations (30.8% for Baby Boomers and 26.7% for Generation Xers) state they did not know at what age they would retire.
- In 2012, 50% of surveyed retirees report they retired earlier than planned. The most cited reasons are, 51% due to health issue or disability, 21% due to changes at their employer or downsizing, and 19% due to family care giving responsibilities.
- Working a few extra years beyond full retirement age can have a significant positive impact on retirement readiness. According to one study, 66% of individuals are ready for retirement at age 66. If those individuals waited until age 70 to retire, their retirement readiness increases to 89%.
- Among workers age 50 and older, 38% expressed an interest in a phased retirement program. Of those interested, 78% stated such a plan would encourage them to work past their expected retirement age.
- IRI research found 64.4% of Baby Boomers and 70.0% of Generation Xers stated that work in retirement will be a source of retirement income.
- According to a study, 75% of retirees stated the method in which they retired was to stop work all at once. This implies that those retirees who wish to work in retirement may experience a period without work as they search for employment. The current economic situation will pose serious challenges for seniors who wish to find work in retirement.

- For retirees who wish to work, the monthly income from an annuity will provide the continued income to help manage the challenges of the labor market.
- Due to increasing instances of disability as individuals age, a deferred annuity can provide an accumulation vehicle and a source of income for later ages when an individual may not be able to work.

Timing of Retirement

In this section, the paper will examine issues around when workers are planning to stop working and the experience of retirees regarding whether they stopped working when they planned or not. For those individuals who have flexibility on what age to stop working, this section presents options to consider.

Workers Planned Age of Retirement

At what age an individual plans to stop working is a critical factor for retirement planning. For starting with that age, the individual will be relying on the savings accumulated throughout their working lifetime for the balance of their life. According to IRI research, 34.9% of Baby Boomers reported they plan to retire at age 66 or older. The corresponding figure for Generation Xers is 25.1%. Interestingly, a significant percentage of both generations, 30.8% of Baby Boomers and 26.7% of Generation Xers, reported they did not know at what age they would stop working.

Planned Age to Stop Working, Baby Boomers (2012) and Generation Xers (2011)

	Baby Boomers	Generation Xers
Under 55	0.4%	7.4%
55	0.8%	4.5%
56-61	5.8%	12.0%
62	7.2%	4.9%
63-64	2.4%	6.1%
65	13.8%	16.1%
66-69	12.0%	5.3%
70 and older	22.9%	19.9%
Don't Know	30.8%	26.7%

Source: Insured Retirement Institute

Planning to stop work at later ages is a long-standing trend. According to the EBRI/Mathew Greenwald and Associates, Retirement Confidence Survey (RCS), the percentage of workers stating they plan to retire at age 60 or younger decreased from 19% in 1991 to 8% in 2012. Correspondingly, the percentage of workers who stated they plan to retire at age 70 or older increased from 9% to 26%.

When Did Retirees Actually Retire?

As we see workers are planning to retire at later ages yet how does this compare with the age at which retirees stated they actually retired. According to the MetLife Mature Market Institute study, *Transitioning into Retirement: The MetLife Study of Baby Boomers at 65*, of those surveyed individuals who reported they were already retired, 51% stated they retired earlier than planned. Of those who retired earlier than planned, 53% cited negative reasons (37% for health reasons and 16% because of job loss/job opportunities).

In this same study, 8% reported they retired later than planned. Of those who retired later than planned, 44% cited financial considerations, (27% need salary, 11% need to save more and 6%

need to recover/rebuild finances). Only 42% of retirees in this study reported they retired when they planned.

These findings from the MetLife study are comparable to long-term trend findings from the RCS. According to the RCS, in 1991, 38% of retirees reported they retired before age 60 and 7% at age 70 or older. There was little change in the age of retirement by 2012 with 40% stating they retired before age 60 and 8% at age 70 or older. Similarly, the RCS found, in 1991, 52% of retirees retired earlier than planned, little changed in 2012 when 50% reported retiring earlier than planned. Many who retired earlier than planned cited negative reasons, in 2012, 51% health or disability, 21% company changes such as downsizing, and 19% family care giving.

The experience of retirees shows that an individual may not be able to rely on working longer to reach a desired level of savings. These findings underscore the vital importance of working with a financial advisor early in your career to set up a regular savings plan to achieve retirement goals. This plan provides greater flexibility to meet unforeseen challenges in later career.

For those individuals who have flexibility on what age to stop working, the following are points to consider when working with a financial advisor to determine at which age to retire.

Social Security
When to start taking Social Security benefits is a critical decision in the retirement process. An individual is first eligible to receive Social Security benefits at age 62. If someone is to start claiming benefits at that age, the individual will receive a lower monthly amount compared with starting at full retirement age. Under current law, the age of full retirement benefits varies by when you were born.

Full Retirement Age and Reduction for Benefits Starting at Age 62 or Age 65

Birth Year	Full Retirement Age	Amount Benefit is Reduced if Retirement Begins at Age 62	Amount Benefit is Reduced if Retirement Begins at Age 65
1937 or earlier	65 years, 0 months	20.0%	0%
1938	65 years, 2 months	20.8%	1.1%
1939	65 years, 4 months	21.7%	2.2%
1940	65 years, 6 months	22.5%	3.3%
1941	65 years, 8 months	23.3%	4.4%
1942	65 years, 10 months	24.2%	5.6%
1943-1954	66 years, 0 months	25.0%	6.7%
1955	66 years, 2 months	25.8%	7.8%
1956	66 years, 4 months	26.7%	8.9%
1957	66 years, 6 months	27.5%	10.0%
1958	66 years, 8 months	28.3%	11.1%
1959	66 years, 10 months	29.2%	12.2%
1960 or later	67 years, 0 months	30.0%	13.3%

Source: Social Security Administration

Beginning Social Security benefits at age 62 reduces monthly payments ranging from 20% to 30%. For those individuals born in 1938 and later, starting Social Security benefits at age 65 reduces benefit payments from 1.1% to 13.3%. The amount recipients collect when they first receive benefits sets the base for the amount they will receive for the rest of their lives. While benefits can increase because of annual cost-of-living adjustments, those adjustments will be based off a lower base.

Individuals wishing to start claiming Social Security benefits between ages 62 and 64, and plan on continuing to work, could experience a reduction in their benefit. Social Security will deduct $1 from the benefit for every $2 earned over the annual earnings limit. In 2012, the annual earnings limit is $14,640. This benefit reduction occurs only if the individual earns more than the earnings limit and only until full retirement age. After full retirement age, Social Security recalculates the benefit excluding the months when benefits were reduced or withheld due to earnings above the limit.

Delayed retirement credits accumulate for those workers who choose to start taking their Social Security benefit after their full retirement age. For individuals born in 1943 and later, delayed credits accrue at the rate of 2/3 of 1% per month or 8% per year. Delayed credits accrue only to age 70.

For married couples the decision to start receiving Social Security benefits is more complex. For spouses who do not have their own earnings record, they may be eligible for a benefit based on the working spouse's earnings record. This benefit is a spousal benefit. The non-working spouse must be at least age 62 or have a qualifying child in their care. A qualifying child is defined as either under age 16 or receiving Social Security disability benefits.

The spousal benefit can be as much as half of the primary insurance amount of the working spouse's benefit. If the spouse opts to start receiving benefits before normal or full retirement age, the benefit is reduced unless the spouse is caring for a qualifying child. A non-working spouse, retiring as early as age 62, can receive a benefit, which is only 32.5% of the working spouse's primary insurance amount. A spousal benefit is reduced 25/36 of one percent for each month before normal retirement age, up to 36 months. If the number of months exceeds 36, then the benefit is further reduced 5/12 of one percent per month.

For a spouse who is eligible for a benefit based on their own record, and that benefit is higher than the spousal benefit, Social Security will pay benefits based on the higher amount.

Increase Savings and Access to Employee Benefit Plans
Working longer provides individuals with more time to accumulate savings. According to the Hartford study *Age of Opportunity: Americans Transitioning into Retirement*, one in three retirees say if they could change just one aspect of their retirement it would be "saving more money and being better prepared financially." As an individual thinks about what age to retire and finds savings are low, remaining in the labor force longer than originally planned is an option. Working longer provides more income to save. This savings can be accomplished through an employment-based plan, such as a 401(k) type plan, or an Individual Retirement Account (IRA). In 2012, the IRS caps contributions to a 401(k) plan at $17,000 and for IRAs at $5,000. A worker over the age of 50 may make additional catch-up contributions up to $5,500 to a 401(k) plan and $1,000 to an IRA in 2012. The catch-up feature is beneficial to older workers who may have lower retirement savings rates earlier in their career due to other priorities such as raising children.

According to two studies, one by Boston College, National Retirement Readiness Rating, and EBRI, Retirement Security Projection Model, individuals can increase their probability of being ready for retirement by working longer and accumulating more savings. According to Boston College, for households ages 50-59 in 2007, 66% would be ready for retirement at age 66 and 89% would be ready by age 70. According to EBRI, 52% of those same households would be ready for retirement at age 65 and 64% at age 70. While there are variations in the methodologies of the two studies, both do show the advantage to working a few extra years.

If the employer offers a defined benefit pension plan, working longer can translate into a larger pension benefit. Defined benefit plans provide a pension benefit based on a formula incorporating the individual's age, years of tenure and earnings history. The most prevalent benefit formula is terminal earnings formula. In this arrangement, benefits are based on a percentage of average earnings during a specified number of years at the end of a worker's career; most prevalent is highest five consecutive years. For most workers, their final years of employment are the highest earnings years.

In addition to access to a retirement savings plan, remaining in the labor force longer provides access to employment-based health insurance. This is a very important consideration for anyone's retirement plans. While the age of first eligibility for Social Security benefits is 62, Medicare benefits do not start until age 65. Retiring before age 65 means the individual will be responsible for all of their health care costs. Health insurance coverage for an individual over the age of 50 can be expense and varies by age, state you live in, and current health status.

Working longer provides several benefits, which can enhance retirement income. Working longer provides higher benefits from Social Security and a defined benefit pension, more time to accumulate saving in a retirement savings plan, and longer access to employment-based health benefits reducing overall long-term health care spending.

Phased Retirement

One option for transitioning into retirement is phased retirement. Phased retirement can be thought of as a flexible work arrangement that can take the form of part-time employment, including working fewer hours each day; fewer days per week; or even working full time for only certain weeks of the year.

These flexible retirement arrangements have the advantage of allowing the individual to gradually transition into retirement instead of an abrupt stop to working and providing continued access to employment-base benefits such as health insurance and retirement savings plans. Financial advisors working with client interested in phased retirement should be aware that for workers participating in a defined benefit plan, phased retirement could reduce their final pension benefit.

An AARP study, *Attitudes of Individuals Age 50 and Over Towards Phased Retirement*, found 38% of surveyed workers age 50 and over were interested in phased retirement. Among those who expressed an interest in a phased retirement plan, 78% expect that the availability of such a plan would encourage them to work past their expected retirement age.

Currently informal arrangements are more commonplace. This is due to legal and compensation implications, which present barriers for some employers. For example, IRS rules on distributions from defined benefit plans and some defined contribution plans are one of the main regulatory barriers to phased retirement. The Internal Revenue Code provisions allow for distribution of benefits from these plans only upon termination from employment or attainment of normal retirement age under the plan.

Financial advisors working with clients on determining age of retirement should encourage their clients to speak with their employer about phased retirement options. Phased retirement arrangements are labor management tools used by employers that wish to keep key skilled employees from exiting the labor force. If the employer does not have a formal phased retirement plan, the employer may work out an informal phase retirement plan.

Working in Retirement

Once an individual takes that final action to leave career employment, will work in any other form be a component of their retirement? According to IRI research, Baby Boomers and Generation Xers see that employment in retirement will be a source of income. Only 31.3% of Baby Boomers and 26.0% of Generation Xers do not see employment as a source of income in retirement.

Employment in Retirement as a Source of Income, Baby Boomers (2012) and Generation Xers (2011)

	Baby Boomers	Generation Xers
Major Source	19.0%	22.0%
Minor Source	45.4%	47.8%
Not a Source	31.3%	26.0%
Don't Know/Refused	4.3%	4.0%

Source: Insured Retirement Institute

Some older workers state their desire to work is not only about needing money. According to AARP's *Staying Ahead of the Curve 2007*, 70% state they enjoy working, 52% work makes them feel useful, 46% to be able to interact with other people, and 38% it gives me something to do. All of these allude to work provides a sense of self-worth and desire to stay active.

Workers may think they will be able to work in retirement but other realities may occur to prevent them from working in retirement. Evidence to the difficulties older workers face comes from the MetLife study cited above. Among Baby Boomers age 65 in 2011 who are retired, 51% stated they retired earlier than planned. Of those who retired earlier than planned, 53% cited negative reasons, 37% for health reasons and 16% because of job loss/job opportunities.

The method in which a worker retires could have an impact on their ability to find work. The Society of Actuaries study, *2011 Risks and Process of Retirement Survey: Report of Findings*, found 75% of retirees stated the method in which they retired was stopping work all at once. This stat implies for those retirees who wish to work in retirement there will be a period without work as they search for employment. The economic situation, like the current one the Unites States is experiencing, will pose challenges for seniors wishing to work. The time an older person is without work can be considerable. According to the Bureau of Labor Statistics, in August 2012 the unemployment rate for individuals age 65 and older was 6.3%. Of those who were unemployed, 54.4% were unemployed for 27 week or more with the average duration of unemployment being 61.9 weeks.

Labor force participation rates of the elderly indicate if a retiree is going to work, it will most likely occur early in retirement. For example, the labor force participation rate for individuals age 65-69 in 2010 was 31.5% compared with individuals age 75-79 of 10.9%.

Labor Force Participation Rates of the Elderly, 2010 and 2020 Projections

	2010	2020
65 and Over	17.4%	22.0%
65-74	25.7%	31.0%
65-69	31.5%	37.8%
70-74	18.0%	22.8%
75 and Over	7.4%	10.0%
75-79	10.9%	15.2%

Source: Bureau of Labor Statistics

Part of the explanation for this is instances of disability and need for assistance with daily living rises with age. According to the Census Bureau's *Americans With Disabilities: 2010*, 35.7% of individuals age 65-69 had a disability, 24.7% had a severe disability, and 6.9% needed assistance with daily living. By age 80 and over, 70.5% had a disability, 55.6% had a severe disability, and 30.2% needed assistance with daily living.

Because of the unreliability of work in retirement, due either to economic circumstances or health related reasons, individuals need to work with a financial advisor to develop alternative strategies. The next section of this paper will outline some retirement planning strategies, which involve insured products and incorporates work but does not rely on working in retirement.

Insured Products Can Help Bridge the Gap into Full-time Retirement

Previous IRI research, *Baby Boomers and Generation Xers: Are They on Track to Reach Their Retirement Goals?*, shows that two of the top five most important traits of a retirement investment product for Baby Boomers and Generation Xers are guaranteed income each month and will not lose principal. This stability of income also provides flexibility for retirees who wish to remain in the work force.

A retiree who has left career employment but wishes to remain in the work force to stay active may have difficulties finding a suitable job. As noted above, today's labor market is very challenging for older workers. Once a job is found, there is still the potential that the position could be eliminated due to economic considerations of the employer. The monthly income from an annuity will provide the retiree with continued income to manage the challenges of the labor market.

For the retiree who wishes to work longer than their full retirement age, a deferred annuity is an option to consider. As was demonstrated above, aging presents increased risks of disability and needing assistance with daily living. Although the retiree may wish to work into advanced ages, they may not be able to. A deferred annuity, with benefit payments beginning at older ages, can be a source of income replacement when the retiree is no longer able to work.

For those retiree couples in which work is necessary for income purposes, life insurance is a financial tool to consider. Prudential in their document, *Planning for Retirement: How Much Longer Do We Need to Work* recommends having an adequate amount of life insurance coverage. Due to the increased importance of working and saving within a household, individuals who are the primary income earner within a married couple should carry an adequate amount of life insurance to protect the retirement prospects of a surviving spouse in the event of the wage earner's premature death.

Conclusion
As the Baby Boom generation enters retirement, there is increase talk about how they will transform retirement as they have transformed all other aspects of each life stage they have moved through. The new normal for retirement is predicted to involve a larger role for work in retirement. This may be true for some retiring Baby Boomers but not for all. As BLS data shows by 2020 for those retirees most likely to be able to work, ages 65-69, the labor force participation rate is projected to be 37.8%. The flip side of that coin is 62.2% will not be in the labor force.

The main point of this paper has been to show that work can be a component of retirement income but should not be relied upon. The importance of working with a financial advisor early in your career to develop a retirement savings plan cannot be overestimated. Many studies have shown that starting to save at the beginning of a work life and consistently saving throughout the working years can produce a very substantial retirement nest egg. Working with a financial advisor to develop a strategy to manage that nest egg such that a steady stream of guaranteed income is produced throughout retirement provides a retiree with the flexibility of working in any occupation focusing on the self-fulfillment aspect of work and not an income necessity.

Methodology
The data in this report is derived from both proprietary and secondary sources. The Insured Retirement Institute commissioned Woefel Research, Inc. to conduct a survey of Boomers approaching retirement or who have recently retired. The research was conducted by means of telephone interviews with adult Americans age 50-66. Preliminary results are based on a sample of 503 individuals are presented. The sample was selected from a list of households in this age group, developed by Accudata, Inc. by compiling data from available sources such as motor vehicle records. Results were weighted by age and gender to the 2010 United States Census. Data was collected during February and March 2012.

The Insured Retirement Institute (IRI) commissioned Woelfel Research, Inc., to conduct a survey to determine how retirement is viewed by Generation X individuals in their 30s and 40s. The research was conducted by means of telephone interviews with 802 Americans aged 30 to 49. The sample was selected from a list of households in this age group, developed by Accudata, Inc., by compiling data from available sources such as motor vehicle records. Results were weighted by age and gender to the 2010 United States Census. Data were collected from November 10-22, 2011, and analyzed by IRI in December 2011. The margin of error for the sample of 802 was ±3.5%.

Supporting data was derived from publicly available research from financial services companies (including: The Hartford, MetLife, and Prudential) various government sources (Bureau of Labor Statistics, Census Bureau, and Social Security Administration) and other organizations (AARP, Boston College, Employee Benefit Research Institute, Mathew Greenwald & Associates and Society of Actuaries).