
The Old Folks are Alright (More or Less)

By Kerry Pechter Thu, Mar 3, 2016

The Society of Actuaries has published the results of focus groups and interviews with middle-class older retirees. Despite little planning, most people seem to muddle through 'reasonably well.'

You don't hear much about Americans who retire with tiny nest eggs and who rely mostly on Social Security in their old age. But, according to focus groups and interviews conducted for the Society of Actuaries, working class retirees in their mid-70s and older seem to be muddling through with little complaint.

"We don't have a lot of money, but we never needed it," one man in Dallas, Texas told an interviewer. "We never lived above our needs I guess. I take a couple of trips every year and my wife goes up and visits her brothers. We do basically what we want. We are happy."

At a time when economists lament the inadequacy of savings among pre-retirees, the SoA's findings, released in January under the title, "[**Post-Retirement Experiences of Individuals Retired 15 Years or More: A Report on 12 Focus Groups and 15 In-depth Interviews in the U.S. and Canada**](#)," was encouraging.

In those in-depth interviews, retirees' most common financial headaches were sudden expenses due to a leaky roof or expired furnace, to a grown child's emergency or to a sudden out-of-pocket medical expense. And the specter of having to pay for long-term care costs seemed to hang over their heads (Americans, not Canadians).

"That I wouldn't want to put on my children, and that is where my house will come into play, if they need to do something for me," said one woman in Chicago. "Whether they use a reverse mortgage and bring someone in to take care of me in the house, that house is my nest egg at the very last, when there is a Hail Mary that has to be thrown somewhere. I mean I hope I fall off a cliff."

The statements by middle- or lower-middle-class retirees confirmed certain truisms about retirement. Even though planning patently helps, most people do not have a plan for retirement. Most "focused their planning on spending in the first half of retirement. The majority did not have a financial plan when they entered retirement; nor do they have one now that they are in retirement."

Yet many seem to have financial goals, in their minds if not on paper; they prefer to

preserve principal and they often have so-called bequest motives. “Most state their financial plan going forward is to keep their asset levels where they are currently are,” the study said. “Many report that they want to leave something to their children.”

Divorce during retirement, the report makes clear, may be the single biggest threat to financial security. “Divorce is more costly than widowhood, and retirees typically cannot adjust or absorb the cost of divorce,” the report said. “Those who divorce after retirement report losing up to half of their assets or having to sell their home, either because it was part of their settlement or they could no longer afford it. Every retiree in the focus groups who divorced post-retirement reported a financial impact.”

Following are the key findings of the report:

- The Society found in 2013 that near-term retirees do little planning and do not have a long-term goal for their assets. They essentially adapt and adjust to major expenses. The Society asked similar questions to longer-term retirees in 2015 and found that long-term retirees in this study for the most part had done the same thing. The strategy of absorbing and adapting seems to have worked reasonably well for both short-term and long-term retirees of the type represented in the focus groups.
- Many focus group retirees note that their expenses have changed over the course of their retirement. Many say they pay more attention to what they need and try not to buy frivolous items or spend money lavishly. Most state they are frugal or thrifty.
- Very few shocks financially devastate the long-term retirees participating in the focus groups. The expenses that financially devastate these long-term retirees are long-term care, divorce and providing major financial support to children. They report being able to mitigate other expenses with insurance coverage or by absorbing and adapting their spending.
- The in-depth interviews conducted with children and spouses of those who need long-term care in an assisted living or skilled nursing facility reveal that this type of care is financially devastating unless that person has long-term care insurance. However, very few say their relative had this coverage, and even among those who did there were still out-of-pocket expenses. Many focus group participants express concern over long-term care costs, but only a small number have long-term care insurance. Most long-term care expenses are not covered by Medicare or the Canadian equivalent, although in the U.S. Medicaid covers substantial long-term care expenses for low-income individuals who have run out of assets.
- Divorce in retirement is more financially devastating than widowhood. Divorced participants report losing half of their assets and often say they have to move out of their family home as a result of their divorce. Meanwhile, some widowed participants are better off financially as a result of being widowed. Often widows are living off pension incomes that were designed for two or are able to invest a large sum of money

as a result of being widowed, thus making them financially better off as a result of their marital shock. Some lost some income as a result of being widowed but most report that they have adjusted to widowhood.

- Two of the most common unexpected financial expenses for these long-term retirees are home maintenance costs and dental expenses. The cost for these items can be large. However, both of these types of costs can be anticipated. Many of these long-term retirees live in their own home so some home maintenance costs should be expected. Dental costs can also be expected as people age and could also be partially planned for in retirement by purchasing dental insurance.
- Gifts and loans to family are another big expenditure for long-term retirees participating in the focus groups. Many who give gifts or loans to children do so because a child has a problem. They say that although they sometimes give or lend large sums of money to children they are able to absorb and adapt to these costs. Exceptions are costs associated with recently divorced children with children of their own and children with mental illness.
- Very few report a major expense related to health care costs. This finding was expected in Canada but unexpected in the United States. American focus group participants cite Medicare supplemental insurance as the main reason they are able to avoid large health care costs in retirement. The few who report large medical expenses usually do not have a supplemental Medicare policy or fall into a gap in the policy.
- Very few of these retirees use a financial advisor. Some say they do not use an advisor because they have lost money with an advisor previously or they cannot find an advisor they trust. Women are more likely than men to report working with a financial advisor than men.