

## Retiring Retirement

By Stephen F. Barnes, Ph.D.

Retirement is one of the most significant life transitions in adulthood, and current “retirees” and the 78 million Baby Boomers just behind them are re-writing the rules. No longer satisfied with just a nice dinner and commemorative watch, golf or some other kind of lessons, and arts and crafts courses at the local Senior Center, many of us want a lot more out of our “golden years.” The experts are baffled but they really shouldn’t be, this has been coming for a while. After nearly a century of decline the male retirement age, stabilizing at 55 in 1980, has been moving slowly in the opposite direction ever since. Retirees are getting a little older each year. The important question is, “Why are Baby Boomers delaying retirement?”

Based on several recent national surveys by the American Association for Retired Persons (AARP), Boston’s College’s Center for Retirement Research, MetLife, and Merrill Lynch, a new image of the retiree has emerged. Nearly 80 percent of pre-retirees stated they plan to keep working and earning in retirement, but will do so by working part-time and cycling between periods of work and leisure, thus creating a new model of retirement. While many stated they intend to keep working, on average they expect to “retire” from their current job/career at around 64 and then launch into an entirely new job or career. About half of the retirees in one survey who currently work plan to continue working into their 70’s and beyond, with 17 percent never planning to retire.

The most frequently cited reasons for staying in the labor force by those in the 41-59 age range were:

- ✓ to stay mentally active (over 60%)
- ✓ for the money and to stay physically active (over 50%)
- ✓ to stay connected with others (39%)
- ✓ for the health benefits (37%)
- ✓ to provide a sense of identity or worth (39%)
- ✓ to provide new challenges (35%).

### **Here’s what we know for sure.**

- Over the next 25 years, 78 million Americans will reach the traditional retirement age. These individual, known as Baby Boomers (born between 1946 – 1964) represent the largest identifiable social group in American history.
- Approximately 8,000 Americans turn 60 each day. Already, 2.8 million Baby Boomers are have passed that mark and are in the “zone.” According to the U.S. Census Bureau, there are currently more than 37 million Americans aged 65 and older, and that number is expected to nearly double by 2030 as Boomers continue aging.

- A recent national survey of 400 private employers revealed surprisingly positive perceptions toward employees 55 and older—they were viewed as more productive than their younger counterparts but also more expensive, and generally just as “attractive.”
- Two-thirds of those who expect to work in some capacity during their retirement years would prefer to change jobs and work a flexible schedule.
- Over 80 percent of Baby Boomers believe they will need more money than their parents’ generation to live comfortably in later life but only 39 percent think they are planning and saving adequately for that reality. Some (currently 17 percent but growing) cite the commitment to caring for their aging parents and supporting “Boomerang” children or grandchildren as the reason.
- Almost 60 percent of Boomers anticipate inadequate health coverage for themselves and their families in later life. This is based on a longer life expectancy, the sheer size of the Boomer generation, and inadequacy of Medicare.
- Today’s retirees are better educated than previous generations but Boomers are not taking the steps they need to achieve financial security once they retire. It is estimated that half of all Boomers who are currently in their 50s will lack the resources needed to retire at the same age as similar workers have in the past. This bad news confirms our concerns about their retirement prospects. However, an estimated 60 percent of those unprepared for retirement may want and need to remain on the job longer—at least two years longer to add significantly to their retirement income security.

### **Here’s what we think we know:**

- Baby Boomers are increasingly anxious about retirement due to the rising cost of living, including health care, and the desire to maintain their lifestyles. It is also widely recognized by almost everyone that Social Security, employer sponsored defined benefit pensions, employee 401(k) plans, and personal savings will replace a much smaller share of pre-retirement earnings than was the case for earlier retirees. With regard to Social Security, Boomers will not be able to claim full benefits until age 66, then 67 — not 65. This policy change translates into lower benefits relative to pre-retirement income at any given age. In addition, benefits relative to pre-retirement earnings have declined because more wives are working. This outcome is virtually inevitable in a system that only provides a 50-percent spouse’s benefit. Although women increase the family’s pre-retirement income as they go to work, they often fail to increase the couple’s actual Social Security benefit in retirement.

- Boomers will rely primarily on 401(k) plans, not traditional defined benefit pensions in retirement. But they have not yet accumulated large 401(k) balances. Median 401(k) assets, including IRAs, for workers in their 50s are hovering around \$60,000. But, reducing debt, saving more, and working longer are seen as key strategies. If Boomers delay retirement, obviously they get more time to contribute to all of their retirement sources, their assets have more time to accumulate investment earnings, and they reduce the time in retirement these assets must support. In the case of Social Security, with new the “Delayed Retirement Credit,” a retiree’s monthly benefits increase at the actuarially appropriate rate for delaying retirement from the earliest age a worker can claim, age 62, to the latest, age 70. Each year a worker delays taking their Social Security benefits it increases their benefits by 7-8 percent; a two-year delay increases it by 15 percent; and a four-year delay adds one-third to the monthly benefit.

### **Here is what we do not yet know enough about.**

- Only 24 percent of employers say they are prepared for Boomer retirements (1 in 4). Over one third admit they haven’t really thought much about it.
- If Boomers are going to extend their careers, employers need to employ them by providing both opportunities to stay on-the-job at least 2-4 years longer and financial incentives that contribute robustly to Boomer retirement security. However, in one 2007 national survey of 400 employers only 44 percent of these were very likely to do so for half the employees who wanted to stay on; 30 percent were somewhat likely; 25 percent were unlikely. In the same survey, companies were more likely to accommodate older workers this way if they expected business growth, valued the institutional knowledge or “brain trust” of their older workers, and generally had an older workforce. Conversely, employers that perceived older workers as costly or who operated in a business environment where the pace of technical change was *slow* were less likely to accommodate older workers. Surprisingly, factors not deemed important in making decisions about accommodating older workers were employer size, type of worker (rank and file vs. white collar), traditional retirement age for a specific company or industry, and type of industry (goods vs. services firms).
- Phased retirements, in which individuals are helped, over a period of time, to navigate the transition to retirement are still in the experimental stage. Only about 10 percent of current retirees have utilized this option, even though the potential benefits for employees, employers, and society in general are highly touted. Three-fourths of all companies providing this option do so informally on an employee-specific basis. Also, significant impediments remain to be solved for this retirement option, including employee selection, pension issues (which made need a legislative fix), health insurance, and the possibility of flexible work hours.

- While growing older and facing some health challenges, as a group Baby Boomers (63%) feel more vigorous and younger than they are. Studies of healthy aging suggest working to an older age could have a number of positive psychological and physical health effects for many individuals. Among these are doing things similar to those performed in middle age, including social engagement and maintaining friendships. In this sense, working longer appears to be helpful in maintaining a sense of purpose. There are apparently some health benefits in continuing to work as well, particularly in activity-demanding jobs.

What does all of this mean? It means all of us—retirees, families, younger people in the workforce, employers, government—are going to have to adjust to this new retirement paradigm. It means there will be fewer retirement-aged people on the golf course and in other leisure activities and more of us working, commuting, spending, and staying actively engaged as adults. It means the career ladder for many younger workers may be more difficult to climb, and take a bit longer. It means employers need to plan on having older workers around longer, contributing to the enterprise beyond the traditional retirement age. It means America is changing---again! It means we are retiring “retirement.”

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*San Diego State University offers a series of short course designed exclusively for Baby Boomers and their generational issues. These courses are open to the public, meet Thursday evenings, and cost between \$45 - \$90, depending on length. For more information call (619) 594-8806 or go to <http://www.interwork.sdsu.edu>*