

A FULFILLING RETIREMENT

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Why you retired and your health are key to happiness. So is protected lifetime income.



WHAT REALLY DRIVES WELL-BEING IN RETIREMENT?

Your health and control over your decision to retire have a bigger positive effect on your happiness in retirement than your wealth. When it comes to money, though, you're more likely to be highly satisfied with your life if you have a retirement plan that includes protected lifetime income. These are the findings of research summarized for the Retirement Income Institute by Julie M. Anderson, MBA, MPP. The following article is an adaptation of her RII paper.

Many economic studies of happiness in retirement focus on measures such as income and wealth; these studies assume that more money in retirement leads to better overall well-being. But economic well-being is only one aspect of overall happiness and life satisfaction. Noneconomic factors such as your health and why you retired might play an even more important role in determining how happy you are in retirement. Having a source of protected lifetime income from a pension helps, too.

To better understand what leads to overall satisfaction and well-being in retirement, we looked at some important academic insights that, while several years old, are now finding their way into modern retirement planning. Research published in 2005 by Keith A. Bender and Natalia A. Jivan from the Center for Retirement Research at Boston University examined two noneconomic indicators of well-being among retirees: retiree satisfaction and retirement well-being compared with preretirement well-being.

In the working paper, Bender measured retiree satisfaction by analyzing responses to this question: "Would you say that your retirement has turned out to be very satisfying, moderately satisfying

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or not at all satisfying?” Similarly, to evaluate their well-being in retirement, retirees were asked, “Thinking about your retirement years compared to the years just before you retired, would you say the retirement years have been better, about the same or not as good?”

WELL-BEING HIGHER FOR RETIREES WITH PROTECTED INCOME

Noneconomic factors, particularly your reason for retirement and your health, have a larger effect on well-being than economic factors. The researchers also noted that retiree well-being for those participating in a defined-benefit (i.e., pension) retirement plan — which provides a lifetime annuity — is greater when compared with the well-being of retirees without a pension or only participating in a defined-contribution plan.

Overall, this study shows that about 60% of all retirees are very satisfied with their retirement. About one-third rate their retirement as moderately satisfying, and only 8% are not satisfied with their retirement.

TWO MOST IMPORTANT FACTORS: CHOOSING TO RETIRE AND HEALTH

This research suggests that two noneconomic factors have more important effects than economic measures on well-being.

The first factor is the reason someone retires. If individuals choose to retire, they report much higher levels of well-being compared with those who were forced to retire; likely, individuals in the latter category retired before they expected to or are currently unemployed.

The second factor is health. Individual retirees who are in poor health report much lower levels of happiness and life satisfaction.

The study used income, wealth and types of retirement plan to measure economic well-being. Although Bender and Jivan concluded that the income and wealth measures increase overall retiree happiness, the effect is small.

PROTECTED INCOME, DIVERSIFIED SAVINGS CONTRIBUTE TO SATISFACTION

Notably, however, the type of retirement plan affects a retiree’s well-being. Retirees with defined-benefit pension plans, which provide protected lifetime income, are more likely to say that they are highly satisfied with their life (highest category in the survey) as compared with those retirees without a pension. Similarly, retirees with defined-benefit pension plans report the highest level of well-being as compared with those retirees without a pension.

But even when considering retirees with similar incomes, retirees who have both defined-benefit plans and defined-contribution plans are even more likely to rate their life satisfaction as high (again, the highest category in the survey) compared with retirees without a pension. Presumably, retirees with both types of plans feel more economically secure with multiple sources of retirement income. It also stands to reason that diversifying retirement savings can help retirees feel more economically secure, which may contribute to their overall life satisfaction level.

Furthermore, the type of retirement plan has an even bigger influence on the satisfaction and well-being of retirees who retired involuntarily. Compared with individuals who retired voluntarily, retirees who were forced to retire before they expected to place a higher value on defined-benefit pension plans and ones that combine elements of defined-benefit and defined-contribution plans. These retirees likely assign a higher value because they did not complete financial preparations for retirement before entering it.

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Finally, the study examined other factors related to retiree happiness and life satisfaction. Of those who are involuntarily retired, older retirees have a higher life satisfaction than those who are younger than age 62.

Retirees who are still working part time have higher life satisfaction levels, regardless of how much money they're making. On the other hand, having a spouse who works reduces retirement satisfaction, presumably because spouses prefer the companionship of being retired together.

To learn more, visit the Retirement Income Institute at
www.allianceforlifetimeincome.org

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The working paper is "[The Well-Being of Retirees: Evidence Using Subjective Data](#)" by Keith A. Bender (Center for Retirement Research at Boston College, Working Paper 2004- 24, 2004). An associated brief is "[What Makes Retirees Happy](#)" by Keith Bender and Natalia A. Jivan (Center for Retirement Research at Boston College, Issue in Brief 2005-28, 2005).