



Definitions of **bold key terms** are at the end of this article.

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Authors, Title and Publication Date of the Article Addressed in the Insight
Bender, Keith A. 2004. [*"The Well-Being of Retirees: Evidence Using Subjective Data."*](#) Working Paper 2004-24, Center for Retirement Research at Boston College, Boston, MA.

Bender, Keith A. 2005. [*"What Makes Retirees Happy?"*](#) Brief Center for Retirement Research at Boston College, Boston, MA.

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Who Should Read This Insight:

Retirees and other consumers, financial professionals, policymakers

Institute Research Agenda Topic:

Understanding differences in consumer behavior and decision-making

Insight: **WHAT FACTORS RELATED TO OVERALL WELL-BEING MAKE RETIREES HAPPY?**

IDEAS IN THIS INSIGHT YOU CAN PUT INTO ACTION

This article suggests that consumers, retirees, and **financial professionals** should prioritize adding a source of **protected lifetime income**, like **annuities**, when planning for retirement. Protected lifetime income instruments are too important to well-being not to include them in individuals' retirement strategies.

PRINCIPAL INSIGHTS

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.

This working paper (and the related issue in brief) examines two noneconomic indicators of well-being among retirees: retiree satisfaction and retirement well-being compared to pre-retirement well-being. The paper measures retiree satisfaction by analyzing responses to this question: "Would you say that your retirement has turned out to be very satisfying, moderately satisfying, 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?"

The paper finds that noneconomic factors, particularly the reason for retirement and the health of the retiree, 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 to the well-being of retirees without a pension or only participating in a **defined-contribution plan**.

The paper uses the year 2000 wave of data from the Health and Retirement Study, a nationally representative sample of 51- to 61-year-olds who are re-interviewed every other year. Overall, this study shows that about 60 percent of retirees are very satisfied with their retirement. About one-third rate their retirement as moderately satisfying, and only 8 percent are not satisfied with their retirement.

This research suggests that two noneconomic factors have more important effects than economic measures on well-being. The first noneconomic factor is the reason why someone retires. If an individual chooses to retire, s/he reports much higher levels of well-being compared to those who were forced to retire; likely, individuals in the latter category retired before they

expected to or are currently unemployed. The second noneconomic factor is health. Individual retirees who are in poor health report much lower levels of happiness and life satisfaction.

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

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 to those retirees without a pension. Similarly, retirees with defined-benefit pension plans report the highest level of well-being as compared to those retirees without a pension. But even when controlling for income, 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 to 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. Retirees who were forced to retire before they expected to place a higher value on defined-benefit pension plans and combination plans of defined-benefit and defined-contribution elements than individuals who retired voluntarily. These retirees likely assign a higher value because they did not complete financial preparations for retirement before entering it.

Finally, the study examines 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 have nongovernment health insurance or a combination of government and private health insurance report increased satisfaction over those without health insurance. Independent of income earned, retirees who work have higher life satisfaction levels. But 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/retirement-income-institute

KEY TERMS ARE SOURCED FROM THE ALLIANCE FOR LIFETIME INCOME'S ANNUITIES LANGUAGE GLOSSARY AND INVESTOPEDIA

Annuity: A financial product that can offer protected lifetime income and even potentially grow your money.

Defined-benefit pension plan: An employer-based program that pays benefits based on factors such as length of employment and salary history.

Defined-contribution plan: Plans that allow employees to invest pre-tax dollars in the capital markets where they can grow tax-deferred until retirement. **Financial professional:** A qualified person who can help you understand your options and make financial decisions to work toward your financial goals.

Lifetime annuity: A financial product that features a predetermined periodic payout amount until the death of the annuitant.

Protected lifetime income: Income that can last your whole life—and potentially go to your beneficiaries.

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