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Abstract

Existing research shows that adjustment to retirement is correlated with pre-retirement planning. This study presents new insights into the retirement preparedness of Australians at the later stages of working life. Recent surveys of those approaching and entering retirement show that the extent of planning around exiting the workforce, financial management, bequest provision and activities during retirement vary greatly. We find that more than half of Australians in their 50s and 60s have not planned key aspects of retirement. A small minority have detailed and advanced plans. In addition, expectations around these issues and actual realisations may not be well matched.

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Introduction

Retirement is a major life transition that typically brings extensive changes in time-use and financial circumstances. If workers hope to maintain their current lifestyle and enhance it with increased leisure activities, then preparation and planning are needed in many areas. While planning facilitates better adjustment and higher satisfaction in retirement (Turner et al. 1994; Topa et al. 2009), the underlying driver may include a sense of mastery or control over life, expressing itself in planning (Donaldson et al. 2010). Retirement is a complex process and is affected by a diverse set of factors.

Attitudes, work conditions and health are catalysts for retirement planning. Most pre-retirees look forward to a long retirement but a surprisingly large group expects nothing positive from this phase of life (Benartzi 2012). Such negative attitudes to retirement can impede the transition, since a positive attitude to retirement leads to better planning and better planning improves attitudes (Topa et al. 2009; Noone et al. 2010). Further, poor health or difficult work conditions motivate preparation for retirement but high levels of work involvement or job satisfaction can dampen it (Topa et al. 2009). Retirement planning is an individual rather than generic problem that contributes only one part of a whole-of-life-plan.

Some groups of people have been identified as more likely to prepare for retirement. Older, better educated, higher income men are most likely to plan (Turner et al. 1994; Lusardi and Mitchell 2007). Studies in several different countries have shown that higher financial literacy also promotes retirement planning (Lusardi and Mitchell, 2007; van Rooij et al. 2009). However any independent effect of literacy is often confounded with underlying drivers such as investor confidence, risk tolerance and numeracy (Lynch et al. 2011). Overall, the most competent with the most at stake are more likely to plan.

As the Superannuation Guarantee reaches maturity and as the numerous baby boomers begin leaving the workforce, questions over retirement preparedness become critically important. This study offers a snapshot of retirement planning, expectations and realisations from a survey of 920 Australians between the ages of 50 and 74, conducted in 2011. Our analysis complements an earlier survey by Earl and Muratore (2009) and a more recent general population study by Agnew et al. (2012). Leaving paid work, managing finances, changing daily activities and dealing with longevity are four key areas for pre-retirees to consider. The discussion below examines attitudes in each of those areas and, where possible, compares expectations with typical experiences.

Survey and sample

The survey was fielded in early May 2011 with the aim of collecting information about the financial knowledge base, values and plans of Australians around retirement age. It was completed online by 920 members of the PureProfile internet panel, aged between 50 and 74 years. The survey had one common section answered by all respondents and three supplementary sections each answered by around one third of respondents. The common questions covered demographics, values, survival probabilities, bequests and retirement planning. The three supplementary surveys focussed on 1) income and wealth (including superannuation), 2) more detailed retirement plans and 3) knowledge of superannuation concepts, Age Pension and retirement income product

features. Table 1 shows that the demographic characteristics of the sample match the population reasonably well.

[Insert Table 1 here]

Workforce transition

A majority of pre-retirees have not formulated plans for leaving their jobs, possibly because retirement timing is outside the control of many, or because they continue to enjoy work. This area of planning is important, since control over exit from the workforce enhances adjustment to retirement (Donaldson et al. 2010). Of those not-yet-retired in the survey sample, up to 60% had done virtually no planning around the work-retirement transition. This group indicated that they had not really given any thought to leaving the workforce or had only just started thinking about it without making any decisions. Around 30% had some plans in place and had started talking to their employer. Fewer than 40% had discussed retirement with their partners and fewer than 20% with their friends. Low levels of discussion around retirement suggest little scope for sharing social capital.

Responses to questions about planning may mask intentions not to retire from work or a default to some sort of 'norm'. When asked to nominate a retirement age, around 70% suggest an age, typically 65, whereas around 10% state they do not intend to stop working and 20% cannot give an intended retirement age.

While the majority of pre-retirees expected to decide for themselves when they will stop paid work, responses of the already-retired show that the decision is often made for people. Of those who had already retired, only 40% said they decided for themselves when to stop work and the remaining 60% were either forced to retire or nudged out of the workplace.¹

When asked to rank reasons for retiring (Figure 1), 'wanting to do other things' was first in importance. Exogenous factors beyond the control of subjects, like personal health and the health of other family members, ranked second and fourth. Personal health was twice as important as the third-ranked 'no longer needing to work – had enough income'. The likelihood that events outside one's control determine retirement timing makes advanced financial preparation more critical.

[Insert Figure 1]

Financial retirement planning

Financial retirement planning has many dimensions. Accumulation of retirement savings is one measure of 'readiness' and more general planning behaviours are another (Noone et al. 2010). The relatively low level of superannuation accumulations of Australians in the age bracket of our survey sample has been well documented (e.g., Evans and Tan 2006) reflecting the immaturity of the Superannuation Guarantee during the working lives of this cohort, and lower labour force participation by women. The median superannuation balance among those surveyed is less than \$50,000 and the average around \$150,000. Other aspects of financial preparation also vary across the sample.

Estate planning appears to be well covered by many mid-life Australians. Around two thirds of respondents said they had thought about leaving a financial or material bequest. Of those, nearly 60% had made a will. Figure 2 below breaks down the sample into different stages of bequest planning by labour force status with the retired group having made the most firm plans.

[Insert Figure 2]

By contrast, only around 45% of the over 50 years Australian population have tried to work out how much money they will need for retirement (Agnew et al. 2012). Further investigation into financial planning stages (Figure 3) shows that the majority has gone no further than reviewing their current financial position. Only about one in three in this age group has clear goals and plans in place to achieve them. Unsurprisingly, 50% of pre-retirees in our survey expected their living standard to decline (either 'somewhat' or 'a lot') after retirement. Despite these evidently low rates of financial attentiveness, Earl and Muratore (2009) indicate that a large majority of retirees considered themselves 'moderately' to 'extremely well' prepared for retirement.

[Insert Figure 3]

Activities and retirement lifestyle

Australian retirees anticipate an expansion in their leisure activities and look forward to investing in their health and relationships (Earl and Muratore 2009). Similarly, American survey respondents hoped to maintain their lifestyle with worrying about the bills and expenses; 60% of people surveyed rated this as their highest goal. A further 25% wanted to be able to travel and pursue hobbies (Benartzi 2012).

When we asked Australian pre-retirees to rank eight prospects for their retirement from best to worst, 'having a chance to travel' was clearly first. 'Taking it easy' and 'having time with your partner' were also highly ranked. Others rated time for interests as important, and looked forward to less pressure, with time to spend on hobbies or sport. Access to these attractive features of retirement is contingent on financial security. Spending more time with children and 'being your own boss' were less preferred prospects, as was having time for volunteering.

Further questioning showed some mismatch between expectations and realisations. In the graph below we compare pre-retirement plans and post-retirement outcomes of survey respondents. Around 40% of pre-retirees have given little thought to what they will do after work. Travel and leisure activities figure prominently in the priorities of people who have made plans. By contrast, when we asked the same question of the retired, carer responsibilities and volunteering are more important than anticipated, a feature also noted by Earl and Muratore (2009) who report the majority of retirees were engaged in 7.5 hours of volunteering per week.

[Insert Figure 4]

Return to the workforce is also a common experience of the retired and is often anticipated before retirement rather than indicating a planning failure (Maestas 2010). Close to 45% of our sample of not-yet-retired anticipated continuing paid work in some

capacity after formal retirement. Of these 60% stated that work enjoyment rather than needing more money was the main reason for returning to work.²

Life expectancy

As retirements lengthen, a critical factor in all planning areas is subjective life expectancy. The average current age for respondents in the survey was 60.5 years. The average age to which they expected to live across all age groups was 83 years for males and 84 for females. Compared with Life Table estimates, women in their 50s underestimated their lifetimes by seven years on average, and women in their 60s by five years on average. Men were more accurate: men in their 50s underestimated by six years but men in the 60-70 cohort estimated close to actuarial expectation. In other words, most women and younger men still anticipate a much shorter retirement than they are likely to experience. When we asked people about the survival of their partners, similar biases emerged.

Somewhat surprisingly, patterns of optimism and pessimism were not constant across the lifespan. Compared with (improved) population estimates, the typical survey respondent was pessimistic about near-term survival (say to ages 75-85) but optimistic about survival at very old ages (say from age 90 onwards). This may reflect uncertainty about survival patterns at very old ages.

Conclusion

While the survey exposes a puzzling lack of plans and somewhat unrealistic expectations, it does show that most Australians in the middle to later years of their working lives looks forward to greater access to travel and leisure during retirement. Few have given much thought to leaving work or the financial constraints that they may face, and most anticipate continuing at a steady living standard despite low levels of personal savings. Responses indicate that only around one fifth of the 50-74 years group surveyed had discussed retirement with friends and co-workers and fewer than one quarter had attended a retirement seminar. If people discussed retirement more openly they might have more advanced plans and more realistic expectations.

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Table 1: Survey Sample Demographic Characteristics

	Survey respondent population (%)	50-74yrs Australian population (%)		Survey respondent population (%)	50-74yrs Australian population (%)
<i>Gender</i>			<i>High School completion</i>		
Male	50.2	49.2	Year 12 or equivalent	56.6	46.6
Female	49.8	50.8	Year 11 or equivalent	7.9	11.6
<i>Age</i>			Year 10 or equivalent	27.1	29.1
50-54 years	25.1	25.9	Year 9 or equivalent	5.4	6.7
55-59 years	22.3	23.3	Year 8 or below	1.9	4.7
60-64 years	19.6	21.6	Did not go to school	1.0	0.9
65-69 years	22.8	16.5			
70-74 years	10.2	12.7	<i>Highest non-school qualification</i>		
<i>Marital status</i>			Postgraduate or equivalent	7.39	3.5
Not living with long term partner	31.2	33.5	Graduate Diploma and Graduate Certificate	7.17	2.0
Married or living with long term partner	68.8	66.5	Bachelor Degree or equivalent	13.3	10.8
<i>Work status</i>			Advanced Diploma and Diploma from University/Vocational College equivalent	18.5	8.7
Employed full-time	27.7	31.5	Certificate or equivalent	15.8	18.7
Employed part-time	19.2	19.0	None of the above	37.9	56.3
Unemployed	3.15	2.0	<i>Annual total personal gross income</i>		
Not in the labour force	12.9	47.5 ^a	Less than \$13,000 pa (\$250 a week)	15.3	21.8
Retired	37.0		\$13,000-\$51,999 pa (250-\$999 a week)	53.2	49.4
			\$52,000-\$103,999 pa (\$1,000-\$1,999 a week)	25.7	21.3
			\$130,000 pa (\$2,500 a week) or more	5.8	7.5

Notes: Source for population statistics: Australian Bureau of Statistics Census of Population and Housing, Australia, 2011. a Census records only those 'not in the labour force'. Also includes those not stating their labour force status.

Figure 1: Relative ranking of reasons for retirement, retired sample

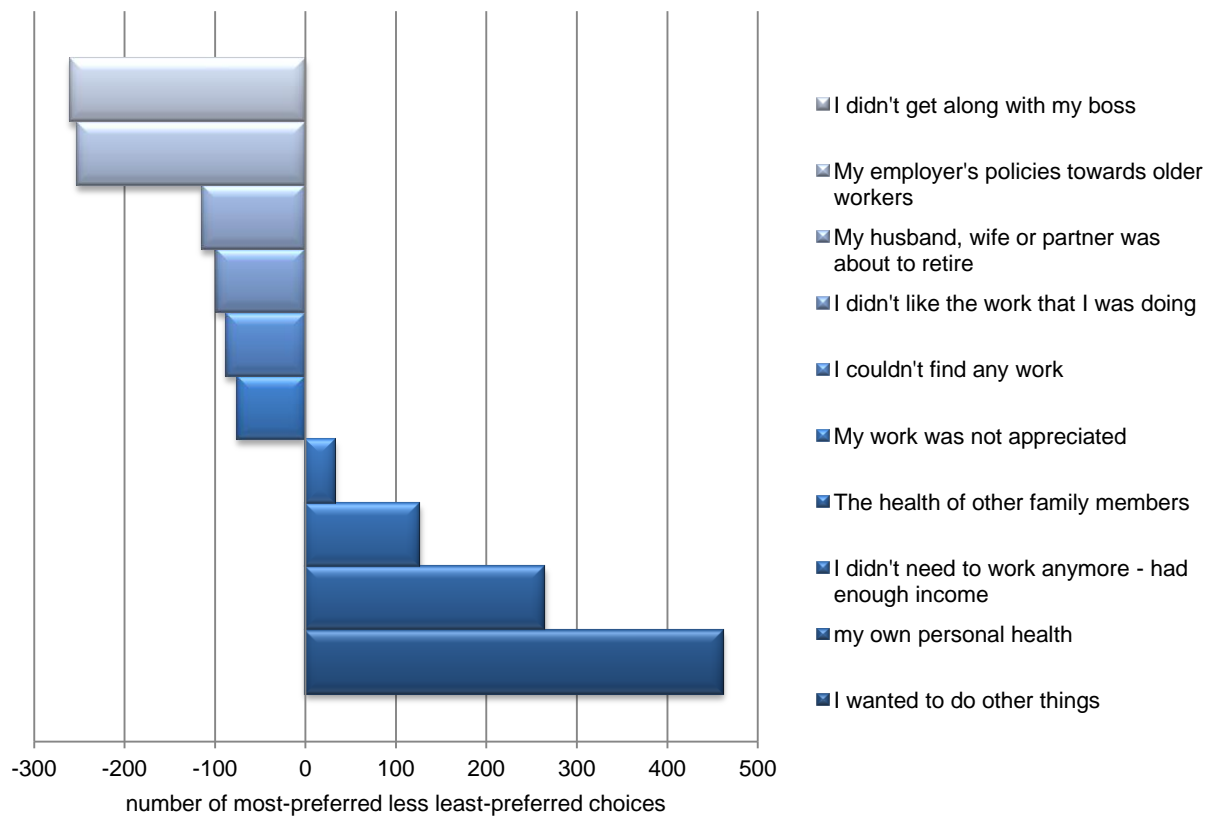
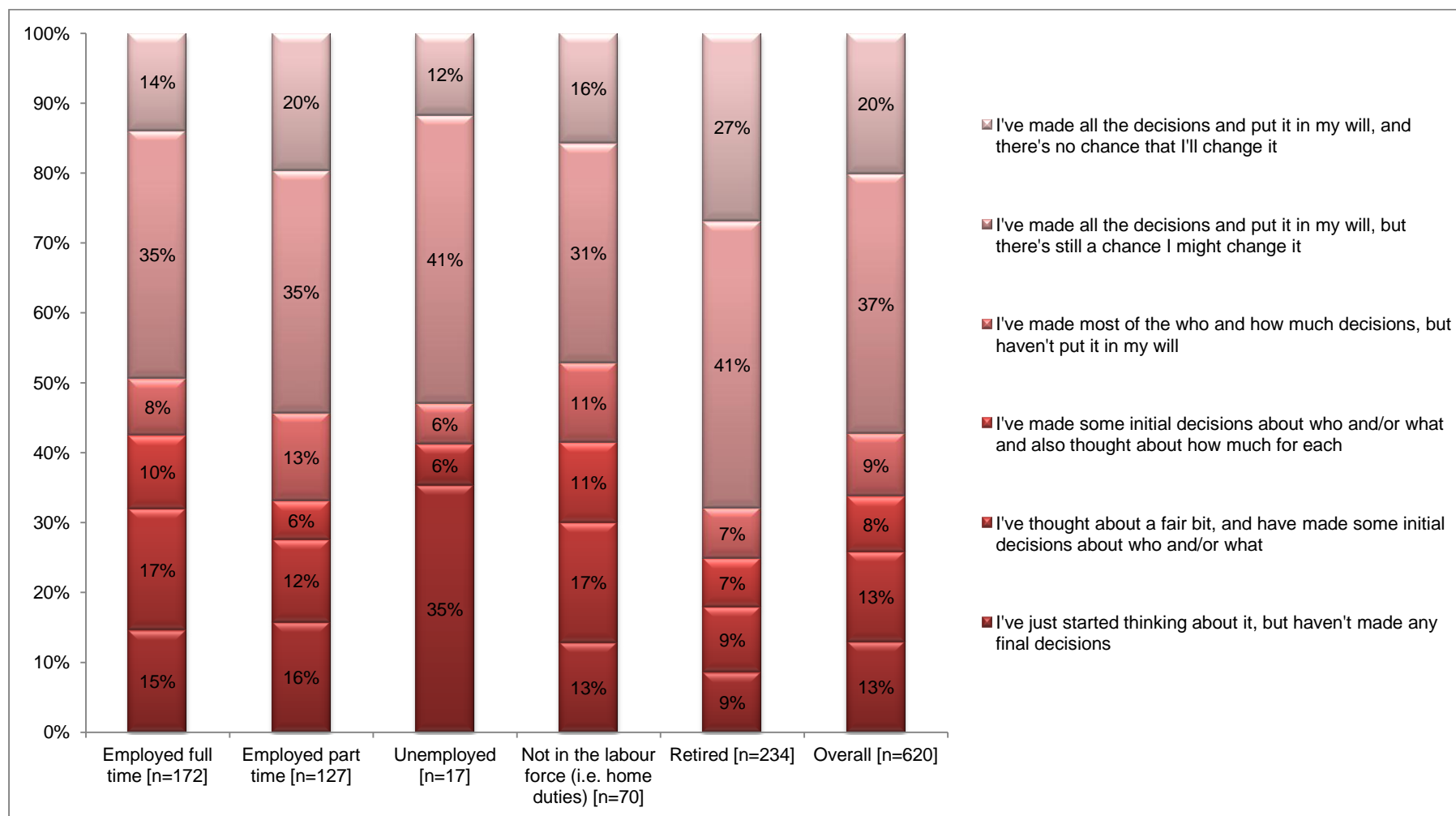
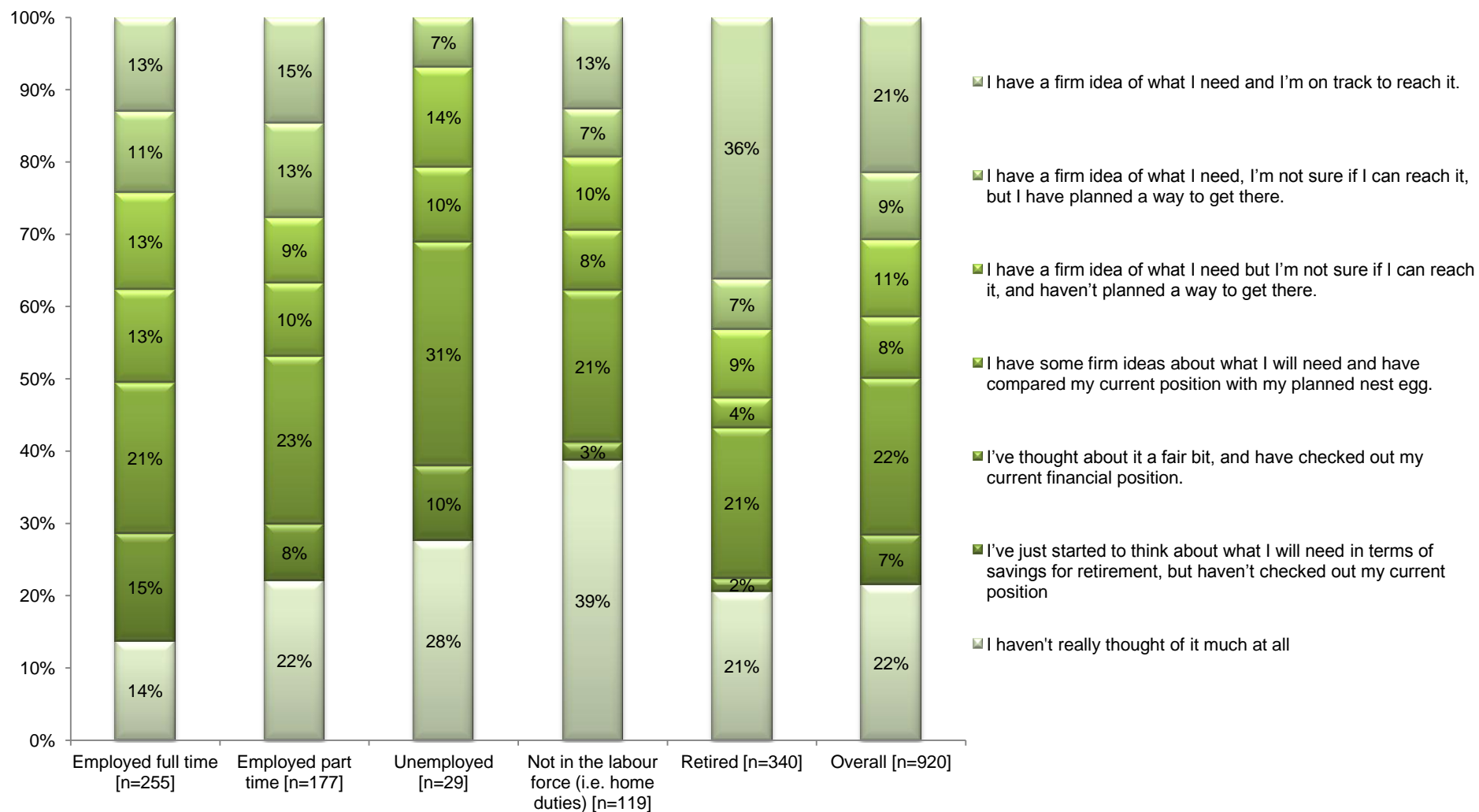


Figure 2: Bequest planning by labour force status, % of sample



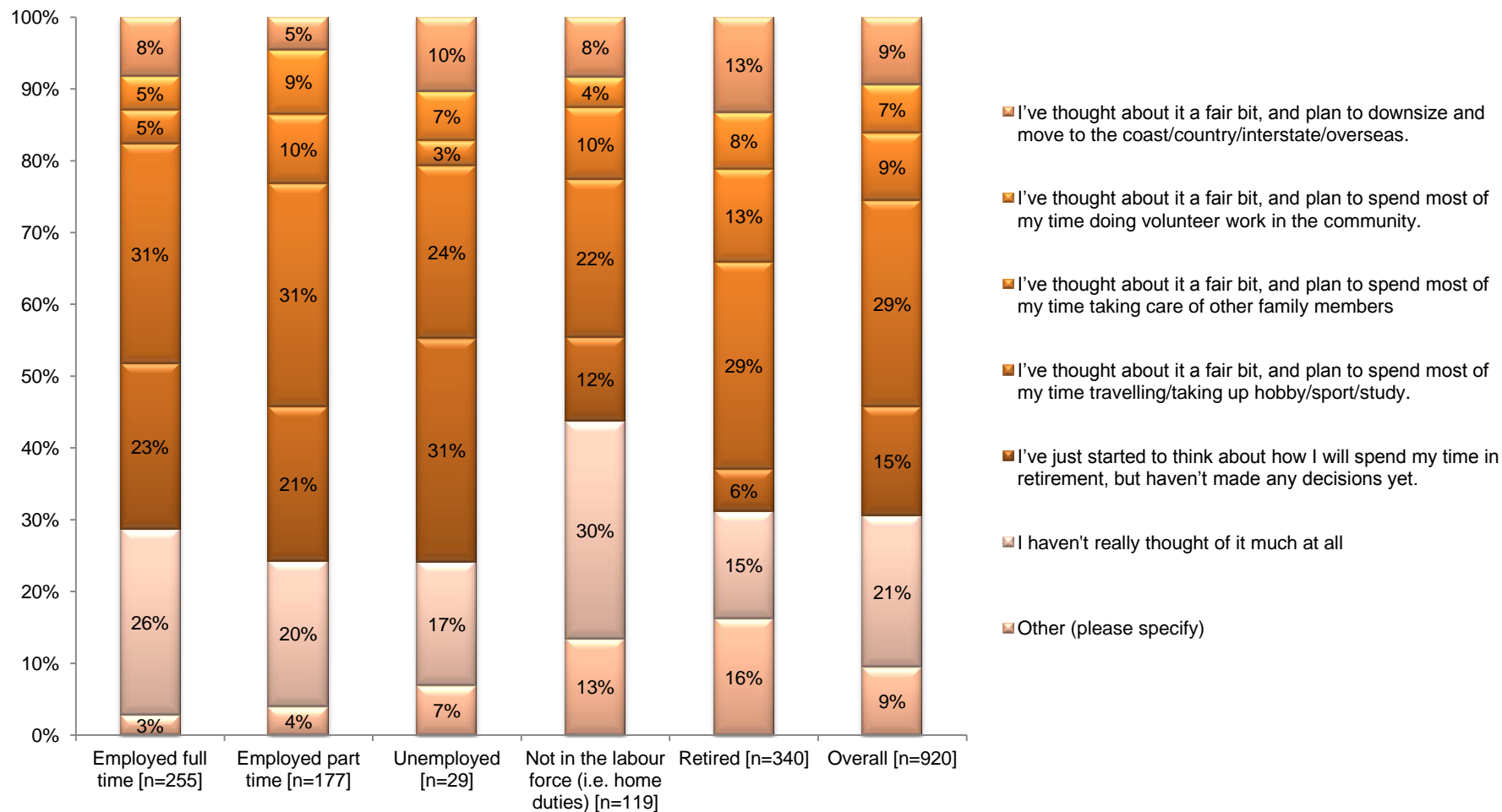
Notes: Responses to 'Which of the following statements best describes your thinking about such an inheritance or bequest?' by self-reported labour force status.

Figure 3: Financial Planning by labour force status, % of sample



Notes: Responses to 'Which of the following statements best describes your thoughts about the financial aspects of retirement?' by self-reported labour force status.

Figure 4: Retirement activities by labour force status, % of sample



Notes: Responses to 'Which of the following statements best describes your thoughts about the financial aspects of retirement?' by self-reported labour force status.

¹ By contrast, Earl and Muratore (2009) report that over 60% of their sample reported having control over the decision to retire, with the remainder having less than full control.

² Earl and Muratore (2009) found around 50% of people returning to work were doing so for financial reasons, but social and mental stimulation were also important.