

Factors Affecting Confidence in a Financially Secure Retirement

Sharon A. DeVaney, Purdue University

The need to prepare financially for retirement is clear as individuals live longer and increasingly take early retirement. In 1900, life expectancy at birth was 47 years; in 1993, it was 76 years. For those who reach age 65, average life expectancy of men is expected to rise from a current 81 years to 85 in 2040; for women, it's 85 and 88 ("The economics of aging," 1994). Average age of retirement declined throughout the 1980s and is now 62. One-third of all household heads currently leave their primary job before age 55 and one-half retire before reaching 60 (Ruhm, 1989). Those without pensions or sizable personal assets are likely to remain in the labor force longer than those with more resources (Bennett, 1994).

According to 1986 figures, incomes of persons 65 and over consisted of: (a) Social Security benefits, 38%; (b) pensions, 16%; (c) miscellaneous, 3%; (d) employment, 17%; and (e) private savings, 26% (Shilling, 1994). When baby boomers retire, government programs will be severely stretched. There are now 3.4 workers for each Social Security beneficiary, and by 2035 the ratio will likely be 1.1 worker to 1 beneficiary (cited in Retirement Savings in America, 1993).

The most important factors in deciding whether and when to retire are financial status and health. Atchley and Robinson (1982) reported that older and younger retirees held generally positive attitudes about retirement when income was felt to be sufficient and health was good. Krause, Jay, and Liang (1991) found that financial strain eroded feelings of control and self-worth in persons 60 and over. The Normative Aging study showed that 30% of retirees found retirement stressful with the predictors of stress being poor health and family finances (Bosse, Aldwin, Levenson & Workman-Daniels, 1991). A study of women's perceptions of life after retirement revealed three important concerns: (a) finances, (b) leisure time, and (c) keeping a positive attitude, with finances always the primary concern (Keddy & Singleton, 1991).

Some studies (Coyle, 1990; Merrill Lynch, 1995; Meyer, 1990) have shown that women were much less financially prepared for retirement than men. Women have longer life expectancies than men and, on average, earn only 70 cents for every dollar earned by men. Women spend fewer years in the work force due to childcare and eldercare responsibilities. Consequently, women tend to have smaller pension benefits and less Social Security than men (Even & Macpherson, 1990).

For many persons, employment with good pension benefits is the basis for retirement savings. In 1991, 58% of those working full time reported that their employer or union had a pension plan. Of those, 84%

participated in the pension plan. In contrast, only 39% of part-time workers were participants in a pension plan (Employee Benefit Research Institute, 1994). Even so, those who are covered by employer-sponsored retirement plans face the uncertainty of changes in the economy, tax laws, and failure of pension funds (Riekse & Holstege, 1996).

A major change since the mid-1970s is the growth in defined contribution (DC) plans relative to defined benefit (DB) plans. Defined benefit plans are financed by the employer and pay a fixed amount at retirement based on earnings and length of service while DC plans consist of employer and employee contributions. Increasingly, employees are making the major portion of the contribution to fund this type of retirement plan. Also, the DC plans shift investment risk to the employee as it is the employee who selects the investment vehicles for the account (401(k) Survey Report, 1994).

Purpose

Previous research has shown that financial status is a prominent concern in making decisions about retirement, but no research was found on feelings of confidence about a financially secure retirement. Although actions affect retirement preparation, a person's feelings and perceptions of the outcome of these actions provide the basis for feelings of confidence. The purpose of this study was to examine how demographic characteristics, economic resources, and financial management practices relate to perceptions of a financially secure retirement. The research question was, "Overall, how confident are you that you (and your spouse) will have enough money to live comfortably throughout your retirement years". It was hypothesized that financial status and health would be positively related to feelings of confidence.

Methodology

The sample consisted of 800 households headed by an individual over the age of 25. Households were surveyed by telephone between July 5 and July 15, 1993 by Matthew Greenwald and Associates, Inc., a survey research firm specializing in research on financial issues. Random-digit dialing was used to obtain a representative sample. Wording of some survey questions varied depending on whether the respondent was retired or not retired.

Logistic regression was used to examine factors associated with feelings of confidence in preparing financially for retirement. The dependent variable was the question about feeling confident that the person (and a spouse) would have enough money to live comfortably in retirement. The distribution of responses indicated that coding the

dependent variable as 1 equals "very confident" and 0 equals "not very confident" was appropriate.

The independent variables consisted of demographic characteristics, economic resources, and financial management practices. Demographics included age, gender, education, marital status, and health. Economic resources included: (a) income measures, (b) having a retirement plan at work, an Individual Retirement Account (IRA), a 401(k) or a Supplemental Retirement Annuity (SRA), and (c) perception of job security. Variables which measured financial management practices asked whether the respondent had: (a) calculated the amount needed for retirement, (b) started saving for retirement, (c) contributed the maximum amount to an IRA or 401(k), (d) ever withdrawn money from a pension plan, and (e) strongly agreed that he/she had a good pension plan.

Findings and Discussion

Characteristics of the Sample

The final sample had 600 non-retired and 200 retired households. A typical non-retired household was headed by a 42-year-old married person who had some college education or a college degree, and an income of more than \$35,000. A typical retired household was headed by a 69-year-old who was married, with a high school diploma or less education, and an income of \$35,000 or less.

Confidence in Retirement Preparation

The dependent variable was whether or not the respondents felt very confident that they were financially prepared for retirement. A larger proportion of retirees than non-retirees (29% compared to 19.5%) were very confident that they were prepared financially for retirement. Logit coefficients were useful in determining the direction of the effects of the independent variables on the dependent variable. Significant logistic regression results are shown in Table 1.

Retirees. Only three factors were statistically significant for retirees. As hypothesized, being very confident that they could meet basic expenses and that their health was good were positively related to the probability of confidence of a secure retirement for the retirees. Further, having a pension plan was positively related to being very confident about financial preparation for retirement for the already retired group.

Table 1. Logistic Regression Results: Confidence in Financial Preparation for Retirement^a

Variable	Non-retired		Retired	
	Coeff.	SE	Coeff.	SE
Intercept	-5.397	0.885**	-7.369	2.379**
Male	0.601	0.297*	0.868	0.503
Married	-0.999	0.365**	-0.076	0.521
Pension at work	-0.233	0.411	1.462	0.536**
SRA	1.093	0.436*	-0.154	1.069
Good pension plan	1.362	0.336**	0.459	0.505
Confident health	1.676	0.315***	1.436	0.451**
Confident basic expenses	3.413	0.442***	2.714	0.540***
If started saving	0.815	0.407*	—	—
Confident find job	0.764	0.312*	—	—
Pseudo R ²		.317		.337

* $p < .05$, ** $p < .01$, *** $p < .001$

^a Note: Only significant results are reported.

Non-retirees. Non-retirees' confidence in financial preparation for retirement was significantly related to eight variables. Similar to the retirees, confidence in meeting basic expenses and good health were positively related to a high level of confidence in a financially secure retirement. Also, being confident that their pension plan at work was a good plan was statistically significant. This finding differs from that for retirees. For them, having a pension plan was significant, not the belief that it was a good one.

Having started saving and having an SRA were positively related to confidence in preparation for the non-retired. These findings indicate that the person with long-term objectives for the accumulation of assets was more confident about financial preparation for retirement. Having started to save and use SRA are actions requiring an individual to plan and make conscious decisions about savings. Perception of job security (being able to find job with equal pay without difficulty) was positively related to confidence. This implies that the individual had prepared for an occupation needed in the marketplace or felt that he/she could adapt readily to a job change.

Males in the non-retiree group were more likely to be confident about their financial preparation for retirement than females. Men may be more confident about their financial preparation for retirement due to having more financial education and experience than women. Another explanation may be that men tend to express more confidence overall than women. Also, individuals who were single, divorced or widowed

were more likely to be confident about their preparation for retirement than married persons. It may be that unmarried persons are concerned with financing only their own retirement while married persons must finance not only their own retirement years, but contribute to or fully fund the retirement of a spouse. Health and life expectancy of a spouse adds more uncertainty to financial preparation for retirement.

Implications for Consumer Education

Results of the study suggest some important conclusions. First, employer-sponsored pensions are important for both retirees and non-retirees. For non-retirees, though, it was the perception of how good the plan was that was related to confidence in financial preparation for retirement. This may reflect concern about the stability of the employer's pension plan.

Second, health was an important consideration in having confidence in retirement preparation for both retirees and non-retirees. This indicates the concern held by many about large and unexpected costs for health care in the future.

Third, several financial management practices were identified. The notion that there was enough for basic expenses suggests that some budgeting or cash flow management was used. Having an SRA indicates that resources which could have been used for current consumption were instead being accumulated in a retirement account. Descriptive statistics showed that non-retirees believed that their own input to the pension plan at work would be the most important source of income in retirement. This was supported by the significant results for the starting to save and SRA variables.

In conclusion, the study found strong support for reliance on sound financial management practices and obtaining employment that provides a pension. Financial management educators should continue to emphasize development of sound financial management practices such as budgeting, saving, and living a healthy lifestyle. Retirement preparation programs for persons not covered by pensions, such as self-employed persons, are especially important. In 1994 approximately 11 million people in the U.S. described themselves as self-employed (West, 1995). Many of these have no employee pension plans. Initially, the self-employed have no extra money to fund a retirement plan. But, when business matures, they are more receptive to planning for retirement (West, 1995). Retirement planning programs should consider these circumstances.

References

Atchley, R., & Robinson, J. (1982). Attitudes toward retirement and distance from the event. *Research on Aging*, 4, 299-313.

- Bennett, A. (1994, July 20). More and more women are staying on the job later in life than men. *Wall Street Journal*, B1-B2.
- Bosse, R., Aldwin, C. M., Levenson, M. R., & Workman-Daniels, K. (1991). How stressful is retirement? Findings from the Normative Aging Study. *Journal of Gerontology*, 46(1), P9-14.
- The economics of aging. (1994, Sept. 12). *Business Week*, pp. 60-68.
- Coyle, J. M. (1990). Understanding female retirement: Future research. In C. L. Hayes & J. M. Deren (Eds.) *Pre-retirement planning for women: Program design and research*. NY: Springer Publishing Company.
- Employee Benefit Research Institute. (1994). Part-time work: Characteristics of the part-time work force. *Pension Benefits*, 2(12), 3-4.
- Even, W. E., & Macpherson, D. A. (1990). The gender gap in pensions and wages. *The Review of Economics and Statistics*, 72, 259-265.
- 401(k) survey report. (1994). *Pension Benefits*, 3(2), 1-2.
- Keddy, B. A., & Singleton, J. F. (1991). Women's perceptions of life after retirement. *Activities, Adaptation and Aging*, 16, 2, 57-65.
- Krause, N., Jay, G., & Liang, J. (1991). Financial strain and psychological well-being among the American and Japanese Elderly. *Psychology and Aging*, 6(2), 170-181.
- Merrill Lynch. (1995). *The Seventh Annual Merrill Lynch Retirement and Financial Planning Survey*. Princeton, NJ: Merrill Lynch, Pierce, Fenner & Smith, Inc.
- Meyer, M. H. (1990). Family status and poverty among older women: The gendered distribution of retirement income in the United States. *Social Problems*, 37(4), 551-563.
- Retirement Savings in America*. (1993). Princeton, NJ: Merrill Lynch, Pierce, Fenner & Smith, Inc.
- Riekse, R. J., & Holstege, H. (1996). *Growing older in America*. NY: McGraw-Hill.
- Ruhm, C. J. (1989). Why older Americans stop working. *The Gerontologist*, 29, 294-299.
- Shilling, D. (1994). *Financial planning for the older client*, (2nd ed.) Cincinnati, OH: National Underwriter.
- West, D. (1995, May 15). Pension companies target the self-employed market. *National Underwriter*, 10.

Sharon A. DeVaney, Ph.D., is Assistant Professor, Department of Consumer Sciences and Retailing, Purdue University, West Lafayette, IN 47907-1262 (317) 494-8300; e-mail: sdevaney@vm.cc.purdue.edu.

Acknowledgement

The author thanks AARP (American Association of Retired Persons) for access to the data.