Confidence in a Financially Secure Retirement: Differences between Non-retired and Retired

The purpose of this study was to examine perception of financial preparation for retirement. Logit analyses revealed similarities between non-retired and retired in factors related to the probability of confidence in a financially secure retirement. For both groups, there was a positive relationship between confidence and having a satisfactory pension plan, good health, and believing that they had enough money for basic expenses. Additional factors related to confidence for the non-retired were perceived job security, having started saving, and having a supplemental retirement annuity.

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Introduction

The portion of life spent in retirement has greatly increased since 1900. In 1900, the average man lived 46.3 years and spent 1.2 years (or 3 percent) in retirement. By 1980, the average man spent 13.6 years (19 percent) of his 70 years in retirement (U.S. Bureau of the Census, 1984 cited in Aging America: Trends and Projections, 1991).

By 2030, the number of Americans aged 65 and over will more than double to 65 million (U.S. Bureau of the Census, 1989). Government programs are expected to be severely stretched when the baby boomers, now aged 30 to 48, begin to retire about 2012. There are now 3.4 workers for each Social Security beneficiary. By 2035, the ratio will be 1.1 to 1 (Social Security Annual Trustees' Report, 1993, cited in Retirement Savings in America, 1993).

The need to prepare financially for retirement is clear as individuals are living longer and taking early retirement. Men, in particular, are likely to leave the work force before the normal retirement age of 65. According to the U. S. General Accounting Office (1986), the proportion of male pension recipients age 50 to 64 nearly doubled between 1973 and 1983. Those without pensions or sizable personal assets are likely to remain in the labor force longer than those with more resources.

Research related to retirement covers a wide variety of topics, including the development of leisure activities, the decision to move, learning about the availability of medical care, and building up savings (Ferraro, 1990). Given the importance placed on finances as a concern of both the retired and preretirees, it is apparent that research is needed on factors which impact the perception of a secure retirement. Although it is actions that ultimately affect retirement preparation, the person's perceptions of the outcome of actions which they have already taken provide the basis for their beliefs. The purpose of this study is to determine if socioeconomic factors and financial management practices are related to confidence about preparation for retirement.

Background

Perceptions about Retirement

Atchley (1985) suggested that retirement should be regarded as a process rather than an abrupt event. Viewed as a process, retirement is believed to involve economic, social, and physical aspects that occur throughout one's life. 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. Analysis of male participants in the Normative Aging study showed that almost one-third (30 percent) of retirees found retirement stressful and that the predictors of stress were poor health and family finances (Bosse et al., 1991). A study of women's perceptions of life after retirement revealed three important concerns: finances, leisure time, and keeping a positive attitude, with finances always the primary concern (Keddy & Singleton, 1991).

Preparation for Retirement

Socially and economically advantaged workers are more likely to have an opportunity to participate in retirement preparation programs than those who lack education and employment that provides access to such programs (Beck, 1984; Kilty & Behling, 1986). Older
men with more years of education, higher occupational status, and private pensions have greater access to retirement programs, as do government employees. Minorities tend to be less involved in retirement preparation programs.

In a cohort analysis of retirement preparation, Ferraro (1990) anticipated finding a linear relationship between age and retirement preparation. He did not find such a relationship; however, he found some support for Easterlin's (1987) thesis that relatively small cohorts fare better than larger cohorts when facing a depressed economic climate. Evans, Ekerdt, and Bosse (1985) showed that even workers who dreaded or were indifferent to retirement sought information about retirement as it drew near. However, the latter study focused on self-orientation and did not include actual retirement preparations such as those that were included in the study by Ferraro. Thus, the relationship between age and retirement preparation is unclear.

Research on retirement preparation of the baby boomers has shown that nonhousing net worth increased with income and education for cohorts of older and younger boomers. White households were more likely than nonwhite baby boomers to hold nonhousing net worth (DeVance, 1994).

There is a distinct gap between women's and men's retirement preparation (Fifth Annual Merrill Lynch Retirement Survey, 1993; Logue, 1991; Meyer, 1990; Quadango, 1988). 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 workforce due to child care and elder care responsibilities and, consequently, have smaller pension benefits and less Social Security. Although relatively few studies have focused on women's preparation for retirement (Coyle, 1990), Kitly and Behling (1986) showed that women were much less financially prepared for retirement than men. McKenna and Nichols (1988) found that among women aged 40 to 55, those who were most active in retirement planning had higher household incomes, expected a pension, and were generally willing to take risks, i.e., investment risk.

Studies which attempted to examine the extent and pattern of financial planning for retirement by professional workers indicated that income was the most consistent predictor for both black and white professionals (Kitly & Behling, 1986; Richardson & Kitly, 1989). The dependent variables used in those studies and identified as "financial planning" were actually sources of post-retirement income. The current study interprets financial planning as decisions which are made about the resources used to finance retirement.

For many persons, employment with good pension benefits is thought to be a basis for retirement savings. However, some people choose to be self employed and fund their own retirement. And those who are covered by employer retirement plans face the uncertainty of changes in the economy, the tax laws, and the failure of pension funds.

The history of pensions is well developed. Private employer pension coverage grew rapidly during the 1940s and 1950s. The proportion of private employees covered by a pension plan grew from 12 to 37 percent between 1940 and 1960. The growth rate of coverage was slower between 1960 and 1970 and the coverage rate declined from 43 to 40 percent between 1979 and 1988 (Reno, 1993). In 1991 58 percent of those working full time reported that their employer or union had a pension plan. Of those who indicated that a plan existed, 84 percent of full-time workers participated. In contrast, only 39 percent of part-time workers were participants in a pension plan (Employee Benefit Research Institute, 1994).

A major change since the mid-1970s is the growth in defined contribution (DC) plans relative to defined benefit (DB) plans. Defined benefits are usually financed by the employer; such plans pay a fixed amount at retirement based on earnings and length of service. In contrast, defined contribution plans consist of employer and employee contributions and the employee's share has been increasing. In 1990, employers paid all of the contribution in 71% of 401(k) DC plans, but in 1993, employers paid the entire contribution for only 57% of the plans. The DC plans also shift investment risk from the employer to the employee as the employee selects the investment vehicles for the account (401(k) Survey Report, 1994).

Conceptual Framework

Satisfaction with Financial Resources

There are major differences in financial resources between most retirees and non-retirees (Schwenk, 1990, 1993). Retirees tend to have lower incomes and receive only a small proportion of income from earned wages and larger proportions of income from Social Security and pensions. Compared to non-retirees, retirees have more tax advantages, are home owners, and frequently have paid off their home mortgages.

Differences in economic resources between the elderly (most of whom are retired) and non-elderly (most are still employed) are illustrated by four trends (George, 1992). First, compared to the 1960s, the economic status of the elderly relative to the non-elderly has shown marked improvement during the past 25 years. Second, between the 1960s and the present, each cohort has
entered old age with greater levels of economic resources than previous cohorts. Third, the cohort effect masks a longitudinal effect, i.e., within cohorts, economic resources decline with age. There are fluctuations over time with widowhood being one of the exacerbating forces of decline in income. Fourth, there is greater income inequality among the elderly population than among the non-elderly. In summary, while there has been overall improvement in the economic resources of the elderly in the last three decades, there is great diversity in resources among the elderly. Thus, any analysis of the economics of the elderly may show more heterogeneity than homogeneity.

**Life Cycle Savings Hypothesis**

A basic premise of the life cycle hypothesis of saving is that individuals will maximize their utility over their lifetime (Ando & Modigliani, 1963). Assumptions of the theory are that individuals plan for the future, will borrow against the future, and have a preference for consumption which implies that they will dissave at certain stages to maintain a desired level of consumption. In general, dissaving is expected to occur during the early years of household formation and following retirement. In the years prior to retirement, households tend to save a greater proportion than before in expectation of reduced income following retirement.

**Hypotheses**

Based on previous research, it is expected that confidence in financial preparation for retirement will be positively related to economic resources and financial management practices. On the basis of the life cycle hypothesis, it is expected that there will be a positive relationship between age and confidence in retirement preparation for non-earners and an inverse relationship between age and confidence in preparation for earners. The relationship between gender and confidence is not clearly shown by previous research. Income and education attained are expected to be positively related to confidence in preparation.

**Methodology**

**Sample**

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

**Variables and Analysis**

Logistic regression was used to examine whether or not confidence in retirement could be predicted. The logit coefficients were useful in determining the direction of the effects of the independent variables. The dependent variable was a measure of global satisfaction of financial preparation for retirement. The question was stated as follows, “Overall, how confident are you that you and your spouse will have enough money to live comfortably throughout your retirement years?” The responses were very confident, somewhat confident, not too confident or not at all confident. The response was converted to a binary variable by coding very confident as 1 and all other responses as 0. The purpose of using a binary variable was to analyze the probability of holding a high measure of confidence about preparation for retirement.

The independent variables consisted of demographic characteristics, economic resources, and financial management practices. The demographic characteristics included age, gender, education, marital status, and health. Economic resources included income, having a retirement plan at work and other sources of retirement income such as an IRA, a 401(k) or a Supplemental Retirement Annuity, and perception of job security. Variables which measured financial management practices included questions that asked whether the respondent: (a) had calculated the amount needed for retirement, (b) had started saving for retirement, (c) contributed the maximum amount to an IRA or 401(k), (d) had ever withdrawn money from a pension plan, and (e) whether the individual strongly agreed that he had a good pension plan. The latter implies that the individual sought employment that included pension benefits. The independent variables are presented in Table 1.

**Findings**

**Characteristics of the Sample**

The descriptive statistics for the sample are shown in Table 1. The sample consisted of 600 non-retired households and 200 retired households. The typical non-retired household was headed by a person whose average age was 42, married, with some college or a college degree, and earning more than $35,000. A typical retired household was headed by a person who was 69 years old and a high school graduate or less. Almost half of the retired households (47 percent) had incomes below $25,000.
Retirement Preparation

Table 2 displays the logistic regression results. The dependent variable was whether or not the respondents felt very confident that they were financially prepared for retirement. A larger proportion of retirees (29 percent) than non-retirees (19.5 percent) were very confident that they were prepared financially for retirement.

Retired

Only three factors were statistically significant for retirees. Being very confident that they could meet basic expenses and that their health was good were positively related to the probability of confidence of account were positively related to confidence in preparation.

Non-retired

Non-retirees' confidence in financial preparation for retirement was significantly related to eight factors, all else equal. Similar to the retirees, confidence in meeting basic expenses and good health were positively related to a high level of confidence. Being confident that their pension plan at work was a good plan was statistically significant. This finding is different from the results of the retirees. For the retirees, having a pension plan was significant, not the belief that it was a good pension plan.

Table 1
Characteristics of the Sample

<table>
<thead>
<tr>
<th></th>
<th>Non-retired</th>
<th>Retired</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age (Mean)</td>
<td>42 years</td>
<td>69 years</td>
</tr>
<tr>
<td>Male</td>
<td>49%</td>
<td>44%</td>
</tr>
<tr>
<td>Married</td>
<td>68</td>
<td>54</td>
</tr>
<tr>
<td>Education &lt;=12 years</td>
<td>36</td>
<td>58</td>
</tr>
<tr>
<td>Some college</td>
<td>31</td>
<td>22</td>
</tr>
<tr>
<td>College graduate or advanced work</td>
<td>33</td>
<td>20</td>
</tr>
<tr>
<td>Income &lt; $25,000</td>
<td>25</td>
<td>47</td>
</tr>
<tr>
<td>Income $25,000-$35,000</td>
<td>18</td>
<td>20</td>
</tr>
<tr>
<td>Income &gt;$35,000</td>
<td>57</td>
<td>33</td>
</tr>
<tr>
<td>Have (or had) IRA</td>
<td>37</td>
<td>28</td>
</tr>
<tr>
<td>Have (or had) 401(k) plan</td>
<td>35</td>
<td>3</td>
</tr>
<tr>
<td>Have (or had) Supplemental Retire Annuity</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Have (or had) Employer-sponsored pension plan</td>
<td>61</td>
<td>54</td>
</tr>
<tr>
<td>Confident healthy enough to enjoy retire</td>
<td>36</td>
<td>38</td>
</tr>
<tr>
<td>Confident enough $ for basic expenses</td>
<td>40</td>
<td>43</td>
</tr>
<tr>
<td>Confident could find another job</td>
<td>33</td>
<td>--</td>
</tr>
<tr>
<td>Confident about Soc Sec in future</td>
<td>5</td>
<td>24</td>
</tr>
<tr>
<td>Good employer-sponsored pension</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Calculate amount needed</td>
<td>35</td>
<td>65</td>
</tr>
<tr>
<td>If have IRA, put in maximum</td>
<td>51</td>
<td>49</td>
</tr>
<tr>
<td>If have 401(k), put in maximum</td>
<td>43</td>
<td>57</td>
</tr>
<tr>
<td>Ever withdraw $ from plan</td>
<td>16</td>
<td>84</td>
</tr>
<tr>
<td>Age started saving (mean)</td>
<td>--</td>
<td>46 years</td>
</tr>
<tr>
<td>If started saving</td>
<td>64%</td>
<td>36</td>
</tr>
</tbody>
</table>

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Two financial management practices: having started saving and having a Supplemental Retirement Annuity account were positively related to confidence in preparation. These findings indicate that the individual had adopted long-term objectives for the accumulation of assets. Having started to save and the use of a supplemental account imply that the individual is consciously allocating resources to provide for future consumption. It is possible that these decisions require more individual planning and decision making than being covered by an employer sponsored plan. However, having acquired a position with a pension is also indicative of individual accomplishment. The perception of job security (being able to find another job with equal pay without difficulty) was positively related to confidence. This finding implies that the individual was proficient in an occupation that was of demand in the marketplace.

Males in the non-retire 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 relatively more financial education and experience than women. Another explanation may be that men tend to be more confident overall than women.

Also, those who were single, divorced or widowed were more likely to be confident about their preparation for retirement than the married. It may be that those who are not married need only concern themselves with financing their own retirement while those who are married must prepare to finance not only their own retirement years, but contribute or fully fund the retirement of a spouse. Selection of survivor benefits reduces the receipt of current benefits. The health and life expectancy of a spouse adds more uncertainty to the financial preparation for retirement.

Discussion

Implications for Further Research

It would have been helpful to know the percentage of income which was targeted for the
retirement savings. Finally, race or ethnic background was not included in the data collection, thus, it was not possible to include race or ethnicity in the analysis.

Although rates for women's pension coverage have been increasing since 1972, they are still below the rates for men (Ewen & Macpherson, 1990; Korczyk, 1993; Meyer, 1990). Women continue to earn less and change jobs more often than men. But, more women than ever before can expect to depend on their own employment history for retirement benefits. It would be useful to analyze the data for the non-retirees by gender to learn if there are differences in confidence in financial preparation for retirement.

**Implications for Consumer Education**

The results of the study suggest several important conclusions. First, employer-sponsored pensions are important for both retirees and non-retirees. It is particularly significant to note that, for non-retirees, it was the perception of how good the plan was that was related to the probability of confidence in financial preparation for retirement.

Second, as noted in the review of literature, health was an important consideration in having confidence in retirement preparation. While one would expect that many of the retirees had access to Medicare and possibly to health care benefits as retired employees, the retirees indicated that having good health implied confidence in a financially secure retirement. Seventy-three (73) percent of the non-retirees were employed fulltime; it is possible that many of those would be covered by a health care plan. Still, the belief that enjoying good health was positively related to confidence is an indicator of the concern about large and unexpected costs for health care in the future.

Third, several financial management practices were indirectly identified by the analysis. The notion that there was enough for basic expenses suggests that some budgeting or cash flow analysis had been accomplished. Having a Supplemental Retirement Annuity indicates that resources which could have been used for current consumption were instead being accumulated in a retirement account. Although the initial salary deduction may not have been tax-deferred, it is possible that growth of capital in the account was tax-deferred. The descriptive statistics (Table 2) show that non-retirees believe that their own input into the pension plan at work will be the most important source of income in retirement. This is supported by the results for the "starting to save" and Supplemental Retirement Annuity variables.

Finally, the non-retirees expressed the belief that the value of Social Security when they retire will not equal the value of Social Security now. This belief can encourage them to rely more on their own savings.

In conclusion, the study found strong support for the importance of employer-sponsored pensions but it also found support for the reliance on sound financial management practices by individuals. Age was not significantly related to confidence in preparation, but different factors were important contributors to confidence for the two groups who represented relatively younger (non-retirees) and older (retirees) individuals.

**Acknowledgements**

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**References**


Endnotes

1. Assistant Professor, Consumer Sciences and Retailing.