# Retirement Preparedness of Pre-Retirees Aged 52-64

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There are over 36.3 million people aged 65 and older in 2003 and this number will increase to an expected 86.7 million by the year 2050 (U.S. Census Bureau, 2005). Since the size of the older population is rapidly increasing, financial security in retirement has been an issue, and it is important for financial planners and educators to stress the accumulation of retirement wealth before retirement. This study is motivated by the need for understanding the retirement preparedness of pre-retirees aged 52 to 64 (prior to typical retirement age 65). In this study, retirement preparedness is considered when pre-retirees have investment assets (e.g., sum of CDs, saving bonds, T-bills, stocks, bonds, IRA, business, other real estate, and other savings) greater than 25 % of net worth. To measure retirement preparation, this investment assets-to-net worth ratio has been suggested and used as a guideline of retirement preparedness (DeVaney, 1995; Lytton, Garman, & Porter, 1991).

This study examines the extent of retirement preparation and identifies pre-retirees who may be at risk of not being financially prepared for retirement. The specific objectives of this study are to identify to what extent individuals in the near retirement stage of life are prepared for retirement, to compare financial portfolios between boomers (ages 52-54) and near-retirees (ages 55-64), and to further investigate the determinants of the likelihood of having investment assets greater than 25% of net worth among individuals in the near retirement stage of life.

Data for the study are drawn from the 2000 Health and Retirement Study (HRS) which is principally funded by the National Institute on Aging (NIA). The main goal of the HRS is to provide panel data that enable research and analysis in support of policies on retirement, saving, and economic well-being of older households. Using the 2000 Rand HRS data file, the sample for this study included households headed by those ages 52-64. With respect to sample selection, if respondents reported themselves as "retired", those groups were dropped. Observations for which there were missing values for one or more of the variables used in our analysis were also dropped. In the analyses, percentages, means, and medians were calculated for all variables to obtain the descriptive statistics of the boomer and near-retiree samples. Logistic regression analyses were conducted to identify factors associated with the likelihood of being prepared for total sample (ages 52-64), boomer sample (ages 52-54), and near-retiree sample (ages 55-64).

Approximately, 48% of both boomers and near-retirees reported that they had investment assets greater than 25% of their net worth. Boomers ($71,037) reported a significantly higher amount of household income than did near-retirees ($57,057). The average amount in a checking/ saving account and of investment asset for the boomers and non-boomers were similar. The average value of investment asset (sum of CDs, T-bills, stocks, bonds, IRA, business asset, real estate, and other asset) was $100,895 for boomers (ages 52-54) and $93,979 for near-retirees (ages 55-64). It is observed that the average levels of IRA for boomers were significantly higher than for near-retirees.

The results of logistic regression analysis also indicated that age, income, family size, education, race, gender, marital status, employment type, and health status were related to the likelihood of having investment assets greater than 25% of their net worth. Specifically, age, income, and education were all positively related to retirement preparation, while family size, non-White, non-married, and poor health were negatively related to retirement preparation in near-retirement life-cycle stage. This study suggested that pre-retirees (ages 52-64) who were prepared for retirement were more likely to be Whites, married, healthy, and self-employed.

It is important for financial educators and professionals to educate families and individuals for retirement planning in their early stages of the life cycle. Understanding the determinants of retirement preparation for both boomer (ages 52-54) and near-retiree (ages 55-64) households would be useful for financial planners and counselors as they meet with pre-retirees on an individual basis prior to their retirement decision-making. As financial planners and counselors recognize these indicators (or the lack thereof) in their clientele, these professionals would be able to better serve their pre-retiree clients and aid them in their retirement preparation. Moreover, while understanding demographics such as lower level of education, being non-White, non-married, and in poor health as indicators of not being prepared for retirement among near-retirees, perhaps policymakers can focus on creating better policy in those demographics in an effort to help more pre-retirees be prepared for retirement.

## References

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