

Are You Ready for Retirement... Can You Answer Five Questions?

By Stephen F. Barnes, Ph.D.

Thinking a lot about retirement these days? You are not alone. Nearly 78 million Baby Boomers, individuals born between 1946-1964, are on track to leave the workforce over the next twenty-two years. That is a huge number of people. The question everyone should be asking themselves is, “How does one successfully make the transition into retirement? This question is a pivotal one as it serves as kind of gateway for the last third of your life. The question also takes on added importance in times of economic turmoil and uncertainty (see Blog posting: “**Retiring Retirement**”).



According to Alan Greenspan, former head of the Federal Reserve Board, the economics of retirement are quite straightforward: “enough resources must be set aside over a lifetime of work to fund consumption during retirement.” But retirement is not just about economics and consumption. Here are five essential questions that need to be asked about retirement. If you can answer them fully and accurately, you are ready.

Question #1: What is retirement?

Surprisingly, very few pre-retirees can answer this question, and it is not entirely their fault. American society—government, educators, employers, nonprofits—has done a dismal job preparing us for one of the most significant transitions in adulthood. Although nearly everyone knows about it and can see it coming, the concepts generally used to describe it are vague and misleading, you know, that “fuzzy happy place.” In fact, there really is not a good information base available to pre-retirees. Outside of pension and benefits questions, it is impossible to talk with one’s employer because they do not get it either—they haven’t retired! Nor do they believe they have any hold over you or share responsibility for the quality of your life after you leave their employ. Sorry, you’re on your own!

Here is what retirement is not:

- It is not the finish line
- It’s not a long vacation or sabbatical
- It is not the end of your life
- It is not the fulfillment of the “American Dream”
- It is not necessarily “better”
- It does not mean the end of “working”

Here is what retirement is:

- It is one of the most significant transitions in adulthood
- It is increasingly *employee driven* and not employer or age driven
- It is a major life change that unsettles our lives, shakes us up, and takes time before we adjust emotionally
- It is usually the end of something (like a relationship with your employer and co-workers) but the beginning of the next phase of adulthood, what I call “Second Adulthood.”

The new retirement paradigm being creating by independently-minded Baby Boomers pushes these concepts even further. Boomers are actually determining when and how they will retire, and are considering such options as “phased retirement,” “bridge employment,” or working “flex

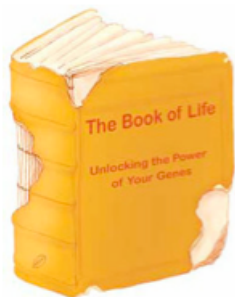
times.” Many are and will continue to postpone it. Some will change jobs but keep working, but on their own terms. And, a surprising number of Boomers (about 35 percent) are telling us they may never retire!



Baby Boomers are *retiring* Retirement

Question #2: How long can you expect to live?

This is a complex question that partially determines the answer to Question #5, below. If you can predict with some accuracy how long you will live you can then compute, with some confidence, how much money you will need to live on.



The most recent life expectancy in the U.S. is 78 years (81 years for females, 76 for males), a bit shorter than citizens of almost every other developed nation in the world. But, as everyone knows these are just statistics. Some will live a lot longer, some a lot less. Where you fall on the continuum depends on your gender, ethnicity, marital status, genetic history, nutritional patterns, exercise regime, environmental exposure, engagement in high-risk behaviors, and other lifestyle factors (see Blog posting: **“You Are What You Eat...and Drink”**).

Of course, it is not just about the length of life but the quality of life. If you are projected to live to age 90 but your last 10 years are defined by debilitating arthritis and diabetes, that is not much fun and will very likely curtail certain kinds of activities. So, in effect, you need two predictions: length of life and length of life at an acceptable level of vitality. There are numerous longevity calculators available to help with this kind of analysis. A frank discussion with your family physician is also a good starting point.

Question #3: What are your obligations?

Eighty-seven percent of Baby Boomers are married, most of these own their homes and have both immediate and extended families. They also have friends, pets, debt, favorite charities, other kinds of affiliations. Over 70 percent of Boomers have at least one aging parents. Clearly, Boomers are not alone, and they have obligations that must be considered in conjunction with retirement. Which ones continue and perhaps expand, which are no longer meaningful?

It should also be noted there are some obligations which, at the time of retirement, may not have yet surfaced. Will you be a member of the “sandwich club,” caring simultaneously for elderly parents and your boomerang adult children who have returned home because they have found life a bit overwhelming? Already 20 million Boomers are sandwiched, and the number goes up every day.



In a revealing study in 2006 by the Urban Institute, Boomers aged 51 to 61 were tracked over a 10- year period. More than three-quarters of these experienced job layoffs, widowhood, divorce,

new health problems, or the onset of frailty among parents or in-laws. More than two-thirds of adults aged 70 and older during the same time frame experienced at least one negative shock. Incidence rates are even higher within households for married couples, who face the added risk their spouses could develop health problems or lose their jobs.

At retirement you will need to understand the extent and breadth of your obligations, and build in some room for the unexpected ones. Your list obviously impacts the answers to Questions #4 and #5 below.

Question #4: What are you going to do for the next twenty years?

This is a biggy. Most Boomers will enjoy the gift of longevity, living 1-3 decades longer than their parents. If you are not working, even part-time, what will you be doing? The answer, of course, depends on what is most important to each of us. Perhaps you will use your Boomer gift to visit all of the California Missions, pursue an interest in painting or woodworking, care for elderly parents, re-build your community, spend more time with grandchildren, garden, volunteer at church, and so on. You might even have a “bucket list” of things you just have to do before you kick the bucket. For most of us there is not one thing, but rather, a number of things that are pretty important. It is all about starting your *Second Adulthood*, moving away from the things you have to do as an adult (*aka* First Adulthood) to the things you really want to do with the precious time you have left. And so, there is some strategic planning involved in post-retirement. Launching a robust Second Adulthood requires forethought, consideration of others, juggling priorities, managing key relationships, allocating time and resources, and a bit of courage. All of this is tempered by your answer to Question #1, as well the physical and mental effects of aging, and the inevitability of chronic disease for the oldest of the old.

Question #5: How much money will you need?

Intentionally, this is the final question on the list. It cannot be answered until all of the previous ones have been answered because “retirement” is not just about money—but it is about the amount of money you will need to maintain a desired lifestyle and be prepared for the unexpected, such as, an economic downturn, natural disaster, disease, and rising health costs. As everyone should know, the risks of falling into poor health, living independently, losing the ability to work, losing a spouse or partner, and encountering other life issues that undermine financial security all increase with age.



The traditional measure used by financial planners was that to be comfortable in retirement and to maintain your current lifestyle you would need approximately 70 percent of the income you were earning before retirement. This “replacement rate” is usually drawn from multiple sources, such as, pensions, 401(k) payouts, securities income, savings, IRA’s, Social Security, and so on. In today’s uncertain economic environment that rule of thumb is a bit shaky. A 2008 study by Ernst & Young puts a fine point on the problem. The study found that middle-income Boomers entering retirement now will have to reduce their lifestyle on average by 24 percent to avoid the likelihood of outliving their financial assets. A substantial number of Baby Boomers 5-10 years out from retirement, those aged 55-59, will have to increase their savings substantially or work beyond age 65 to avoid reducing their standard of living even more significantly in retirement. At greatest risk of outliving their financial assets are retirees relying principally on Social Security, single people, and those with low education attainment.

Boomers who will most likely fair well financially in retirement are individuals at both the top and bottom of the income distribution.

As a generation, Baby Boomers are ill prepared for retirement. More than half (58 percent of whites and 73 percent of Hispanics) admit not adequately planning or saving for it. About half of these again admit to dipping into their retirement accounts to meet current financial obligations. Equally problematic, many Boomers will carry debt into retirement, placing further strain on their retirement assets.

What's next? We still recommend sitting down at the kitchen table with your partner to discuss your Second Adulthood and how you are going to finance it. On a sheet of paper make two columns, one for living expenses and one for post-retirement income. Reconcile the two columns. By the way, this is not something that is accomplished in an hour or two. It must be an on-going consideration as life circumstances shift and change—and they will as you age.

Are you ready for retirement?

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