

Retirement Income Satisfaction of American Retired Workers

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Abstract

The retirement income satisfaction (RIS) of retired workers was examined using the 2007 Survey of Consumer Finances (SCF). Those retired workers who were younger, female, with lower education level, with poorer health, expecting to live longer, and spending exceeded income were less likely to have a higher retirement income satisfaction. Having a savings motive for retirement, saving regularly, the total amount of retirement savings, spouse's or partner's health and working statuses, homeownership, income, marital status, and race were not found to influence RIS.

Key words: *Retirement income satisfaction, retired workers, Survey of Consumer Finances*

Introduction

More and more American retirees continue to work. Some want to stay activate, and others need the income or health insurance the employer provides. According to Choi (1991), half of men aged 55 to 61 and one-fourth of men aged 62 to 64 with pension income re-entered the labor force after their first retirement. American Association of Retired Persons (2003) also indicated that nearly 70% pre-retirees reported that they would either work during retirement or never retire.

Therefore, it is important for researchers, educators, and financial advisors to learn about the experiences of this retired worker group and to share the information with current workers to encourage them to plan for retirement. However, most research on retirement satisfaction focuses on satisfaction with the overall retired lifestyle rather than on retirement income satisfaction (RIS) (Hsu & Anong, 2010). There is limited research on subjective measures of the adequacy of retirement income (Malroux & Xiao, 1995). The purpose of this study was to examine the retirement income satisfaction of retired workers and to investigate factors that affect their satisfaction with their retirement income.

Conceptual Framework

The conceptual framework for this study was derived from findings of previous studies of retirement income satisfaction and the life cycle hypothesis of savings.

Retirement Income Satisfaction

Malroux and Xiao (1995) examined the factors that affected perceived adequacy of expected retirement income of full time workers who were not older than 65 years using the 1989 SCF. The results showed that those pre-retirees who were younger, whites, female, self-employed, and having incomes between \$10,000 and \$19,999 were less likely to perceive their future retirement income to be adequate than otherwise similar households. Marital status, household size, education, health condition of respondent and that of spouse or partner, homeownership, length of employment, having a goal to save for retirement, planning horizon, and being a saver did not impact perceived adequacy of retirement income.

Hsu and Anong (2010) applied the same question as Malroutu and Xiao (1995) to examine the retirement income satisfaction using the 2007 SCF. The response scale is different. In the 1989 SCF, the question was, "On a different scale, how would you rate the retirement income you (expect to receive/are receiving) from Social Security and job pensions?" The response scale ranges from 0 (zero) for "totally inadequate" to 10 for "totally satisfactory," where 5 refers to "enough to maintain living standards." Malroutu and Xiao (1995) recoded the dependent variable as 1 (one) for those who felt future retirement income would be adequate and 0 (zero) for otherwise. In the 2007 SCF, the satisfaction level was measured by the question, "Using any number from 1 to 5, where one equals "totally inadequate" and five equals "very satisfactory," how would you rate the retirement income you (receive or expect to receive) from Social Security and job pensions? Include 401(K) accounts and all other types of pensions." Thus, 3 was the neutral response but it was not labeled as "adequate." Hsu and Anong (2010) treated this dependent variable as continuous and did not recode the responses.

Hsu and Anong (2010) investigated the factors that affected retirement income satisfaction of retirees and workers, dividing the workers into four age groups - young (18 to 34 years), middle (35 to 54 years), older (55 to 62 years), and senior (older than 62 years). The factors examined in their study included expected or current retirement savings from job pensions and other retirement plans, saving regularly, having a retirement savings motive, spending behavior (i.e. saving habit in Malroutu and Xiao (1995)), the health status of respondents and of their spouse or partner, life expectancy, the employment status of spouse or partner, homeownership, age, gender, income, marital status, and education. The results showed that those retirees who were younger, not healthy, expecting to live longer, and whose spending exceeded income were less likely to have higher retirement income satisfaction. Middle-aged, older, and senior workers who did not save regularly and had less income were less likely to have higher RIS levels. Older workers without a retired spouse or partner were less likely to have higher RIS. Life expectancy had a negative effect on the retirement income satisfaction of only senior workers.

Life Cycle Hypothesis of Savings

The life cycle hypothesis of savings (Ando & Modigliani, 1963) says that in order to have smooth or level consumption over the life course, the individual borrows when young while investing in education or human capital. Then as they get older they become workers earning regular income and accumulating wealth while repaying debts and saving for retirement. Later in life, they retire and start to dissave, living off their retirement savings and accumulated wealth.

We used this framework to justify the importance of examining the retirement income satisfaction of retired workers and their socioeconomic characteristics. We also examined the influence of the value of cash or liquid assets available for retirement income from job pensions and other retirement accounts, life expectancy, saving habit, and retirement savings motive. We conceptualized that retirement income satisfaction is a function of having a retirement savings motive, saving regularly, current or expected retirement income from job pensions and other retirement plans, spending behavior, the health status of the retired worker and of their spouse or partner, job status of spouse, life expectancy, homeownership, age, income, gender, marital status, education level, and race/ethnic.

Methodology

The retirement income satisfaction of retired workers was examined using the 2007 Survey of Consumer Finances. The sample was delimited to only include the 1,632 respondents who identified their present job status as retired (full, partial, or temporary) and did any work for pay at the present time.

To deal with missing data, multiple imputation methods were used to produce five complete data sets (i.e. implicates) (Board of Governors of the Federal Reserve System, 2009). All five implicates in the Repeated Imputation Inference (RII) method were used to estimate weighted descriptive means of the continuous variables and ordinary linear regression models which were not weighted. Detailed descriptions of the RII scalar estimation method and RII regression method are provided in Montalto and Sung (1996).

The question measuring the retirement income satisfaction level was used as dependent variable in this study. The independent variables derived from the previous studies included retirement savings motive, saving behavior (i.e., retirement savings, save regularly, and spending relative to income over the past year), self-reported health condition (including respondent and spouse or partner), job status of spouse (i.e. working or retired), life expectancy, homeownership, and demographic or life cycle factors (i.e., age, income, gender, marital status, education level, and race). Income meant the total income respondents and their family living in the same household received in 2006 from all sources, before taxes and other deductions were made. Retirement savings included amounts in individual retirement accounts (IRA), Keogh, thrift accounts, future pensions and currently received benefits. The coding of variables is shown in Table 1.

Results

The weighted descriptive statistics are reported in Table 1. The majority of the sample was non-Hispanic whites, males, and homeowners. Over half of the retired workers were married or cohabiting and they were spending less than their income. The respondents reported themselves as having better health than their spouse or partner. The average age of the sample was 73 years and they expected to live around 14 years longer, to an average of 87 years. On average, this group had one year of college education. The average income and retirement savings were \$83,870 and \$59,201, respectively. Since around 34% of the respondents to the Survey of Consumer Finances are moderately wealthy to very wealthy households (Fries, Starr-McCluer, & Sundén, 1998), the median and 75% quantile income and retirement savings were also reported. The median and 75% quantile incomes were \$28,000 and \$52,000 respectively, whereas the median and 75% quantile retirement savings were \$0 and \$37,000 respectively.

The results of the Ordinary Least Squares Regression models are presented in Table 2. Those retired workers who were younger, female, with a lower level of education, with poorer health, expecting to live longer, and whose spending exceeded income were less likely to have a higher retirement income satisfaction. Having a savings motive for retirement, saving regularly, the total amount of retirement savings, spouse's or partner's health and working statuses, homeownership, income, marital status, and race were not found to influence RIS.

Discussion and Implications

In the current sample, almost three out of four retired workers are male. This likely reflects the reality that females, even at the older age, are more likely to work unpaid jobs such as taking care of family members (e.g., children, spouses, grandchildren, or elder relatives) compared with males.

Compared with other surveys, the mean wealth of SCF respondent is higher because SCF includes 43% and 14% among moderately wealthy and very wealthy cases, respectively (Fries, Starr-McCluer, & Sundén, 1998). We still can get estimation from the median and percent quantiles, and know that retirement savings is less than income for the retired worker group. Take the value of the 75% quantile for example, those average aged 73 retired workers only accumulated \$37,000 in retirement accounts, which might not be sufficient for another 14 years of life. The fact that the mean income is \$83,870 and the mean saving is only \$59,201, not even sufficient to replace one year of income, is of great concern. Therefore, many retirees will be forced to return to work, if they can, to continue saving for later life and supplement the current saving. It is of great concern that this portion of Americans has such limited retirement savings. We can assume that citizens with less lower are in an even worse situation. Educators and financial planners need to address this issue and help their clients find ways to better prepare for retirement. The reasons Americans are not and maybe cannot save adequately for retirement and using income quantiles to categorize the retired workers are potential topics for future research.

As one might expect, spending less or the same as income had a significant positive effect on the subjective evaluation of retirement income satisfaction. However, around 13% of retired workers were unable to make ends meet. Since this sample contains higher earning workers than the average, it is likely that even more lower income workers have difficulty paying all their bills on their retirement income. Additionally, to supplement the gap between income and expenditure, they might over withdraw from their retirement savings and risk running out of savings too soon. When working with this group, financial planners and educators can show them how to budget and tell them the consequences of living beyond one's retirement savings. It may be helpful to create tables or graphs showing when savings will run out and to discuss alternatives. There may be case study reports on retirees who had various spending/saving patterns that could be used to emphasize the points.

From a human capital perspective, health and education are important. Healthier retired workers are more satisfied with their retirement income because they have fewer medical bills to pay and have more capability to earn money and enjoy the "golden age." Better educated retired workers have more chances to earn more and to accumulate greater wealth. They might also have good to excellent financial literacy and know more about investing. These results are similar to those of Hsu and Anong (2010). Financial planners and educators can help future retirees improve their education and take care of their health to have more satisfaction with retirement income.

Compared to female retired workers, male retired workers are more likely to feel satisfaction with retirement income. This might be because females typically earn less and have more movement in and out of labor force to be a caregiver, resulting in limited retirement savings. Hsu and Anong (2010) found no gender differences among retirees and the four worker groups. The relationship between retirement income security and gender difference should be explored further.

This study, like Hsu and Anong (2010), found that there are different directional impacts of age and life expectancy on RIS. Those retired workers who are younger and expecting to live longer are less satisfied. This makes sense because they have more years in retirement and have higher risk of outliving their retirement savings. Although this group might retire earlier, they may reenter the labor force. They might work part-time then, especially if they have not reached the full retirement age to earn the Social Security and pension benefits. They might also return to work after they have experienced retirement life and recognize the inadequacy of their savings and preparedness for later life. Financial planners and educators could help these workers investigate retirement investment tools such as annuities and long-term care and disability insurances to protect them from the potential medical bill burdens. Also, preparing for more years is another method to avoid underestimating life expectancy and to build more financial security.

The variables motive of saving for retirement, saving regularly, retirement savings, and income do not affect the retired workers' satisfaction with retirement income. The results partially support the life cycle hypothesis of savings; people dissave in retirement and live off their retirement savings accumulated from previous working years. However for this retired working group the life cycle hypothesis needs to be adjusted and expanded to explain the financial behaviors of those who retire and still work. Over 60% of the sample has a spouse or partner; however, the factors related to spouse or partner (i.e. being a couple, spouse or partner's working and health statuses) did not affect the retired workers' retirement income security. This is an interesting question to further investigate since the majority of the respondents are male. Females' experiences may be different.

There is no significant relationship between homeownership and RIS for retired workers. Paying a mortgage or rent and thus using more resources might not be important for this group if they do not plan to leave inheritance for their offspring. Although Malroux and Xiao (1995) indicated that white pre-retirees were less likely to have higher retirement income satisfaction, there is no significant difference between race/ethnic and RIS for retired workers in the current study. Further research is needed.

Clearly, there is much to learn about retirement income satisfaction. It is an area that researchers should emphasize so that financial planners and educators who try to help workers prepare adequately for retirement can use the findings.

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Table 1

Measurement and Weighted Descriptive Statistics for Retired Workers in the 2007 Survey of Consumer Finances

Variable	Coding	Retired Workers (N = 1,632)
		Mean (SD) or Frequency %
<i>Dependent variable</i>		
Retirement Income Satisfaction	1 = totally inadequate to 5= very satisfactory	2.88 (1.25)
<i>Independent variables</i>		
Save regularly	1 = yes, 0=otherwise	33.03
Savings motive for retirement	1 = yes, 0=otherwise	27.71
Spending was less than income	1 = yes, 0=otherwise	47.25
Spending equaled to income	1 = yes, 0=otherwise	38.57
Spending exceeded income	1 = yes, 0=otherwise	14.18
Health of respondent	1= poor to 4=excellent	2.68 (0.89)
Health of spouse or partner (if present)	1= poor to 4=excellent	1.38 (1.53)
Working spouse/partner	1 = yes, 0=otherwise	11.63
Retired spouse/partner	1 = yes, 0=otherwise	25.88
Life expectancy	Continuous	87.01 (10.32)
Renter	1 = yes, 0=otherwise	15.36
Age	Continuous	73.05 (10.77)
Income	Continuous	\$83,870 (310,544)
Retirement savings	Continuous	\$59,201 (303,409)
Education	Continuous	12.52 (3.10)
Male	1 = yes, 0=otherwise	63.23
Couple (married or cohabiting)	1 = yes, 0=otherwise	50.90
Non-Hispanic white	1 = yes, 0=otherwise	82.95

Table 2

Ordinary Linear Regression Results of Retirement Income Satisfaction of Retired Workers in the 2007 Survey of Consumer Finances (N = 1,632)

Variable	Parameter estimate	P-value
Saving motive for retirement	-0.017	0.816
Save regularly (vs. not save regularly)	0.101	0.180
Retirement savings	0.000	0.583
Spending equaled to income (vs. spending exceeded income)	0.355	0.002 **
Spending was less than income (vs. spending exceeded income)	0.615	0.000 ***
Respondent's health	0.190	0.000 ***
Spouse/partner's health	-0.030	0.533
Retired spouse (vs. working or otherwise)	0.128	0.135
Life expectancy	-0.012	0.004 **
Renter (vs. homeowner)	0.174	0.106
Age	0.023	0.000 ***
Income	0.000	0.876
Male (vs. female)	0.293	0.011 *
Couple (vs. not married or cohabiting)	-0.059	0.740
Education	0.034	0.006 **
Non-Hispanic white (vs. Other)	-0.195	0.072

Note. * $p < .05$; ** $p < .01$; *** $p < .001$.