Summary Report

Retirement Expectations vs. Reality

If COVID-19 Did Not Impact Retirement Expectations Significantly, What Did?

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Acknowledgements

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Executive Summary

Effective retirement planning is crucial for the financial wellbeing of American workers. However, the gap between retirement expectations and reality often results in significant financial and emotional challenges. This paper explores the factors influencing retirement timing decisions, focusing on the discrepancies between expected and actual retirement ages. Utilizing two data sets from nationally representative studies (a Prudential Financial Wellness Survey and the Health and Retirement Study), this paper identifies key factors impacting retirement timing and provides insights for financial planners, retirement service providers, and policymakers to better support retirees.

Key Findings

- Although there is generally a natural upward trend for older (age 50+) Americans to progressively delay their expected retirement age, this trend has no statistically significant relationship with the COVID-19 pandemic.
- The distribution of older Americans' expected retirement ages is bimodal, often centered around two Social Security Benefit claiming ages – the early retirement age and the full retirement age.
- However, actual retirement ages are more likely to follow a left-skewed distribution, whereby people appear to retire earlier than expected.
- The most significant factors that influence participants' retirement decisions relative to expectations are health (+)[1], wealth (-), age (+), change of marital status (+), mortality expectations (+), education levels (+), disability (-), and major illness diagnosis (-).
- Focusing on these factors can help the retirement benefits community explore strategies to mitigate the negative consequences of gaps between retirement expectations and reality.

This paper explores retirement planning and behavior across the overall workforce and is not specific to public sector workers. For additional studies on public sector retirement from MissionSquare Research Institute, see Retirement Research and Resources.

Introduction

Retirement represents a significant life transition that requires meticulous planning and consideration. While many Americans have a vision of their retirement age and lifestyle, reality often diverges due to various factors, including health, financial stability, and unforeseen life events. Understanding these factors is essential for developing effective retirement strategies and policies that align with the actual experiences of retirees.

Recent research indicates a trend among older Americans to delay retirement; however, many ultimately retire earlier than anticipated. This discrepancy underscores the need for a deeper understanding of the factors influencing retirement decisions and the potential impacts of unforeseen events, such as the COVID-19 pandemic. Over the years, various socioeconomic and demographic factors have been examined to see how they affect retirement expectations and decisions (For a brief overview of previous studies, see the Appendix). However, few studies have examined the impact of the COVID-19 pandemic on older Americans' retirement expectations. To fill the gaps in the existing literature, this paper explores the potential influence factors (including the COVID-19 pandemic) on employees' expected retirement and seeks to answer several important questions[2] regarding the accuracy of retirement expectations among older Americans.

Health, wealth, and unexpected life events often disrupt retirement plans, leading to earlier-than-expected retirements.

Using two different data sets, this study first examines whether the COVID-19 pandemic significantly impacted American workers' retirement expectations. Then it explores the gaps between older Americans' expected and actual retirement ages, further examining which factors are related to worker expectations and actual retirement decisions.

Analyses from both data sets indicate that despite the pandemic's significant impact on work and financial situations, older Americans' retirement expectation trend largely remained stable. Key factors influencing retirement decisions include health, wealth, age, changes in marital status, mortality expectations, education levels, and major illness diagnoses.

Methodology and Findings

The study utilizes two primary data sources:

- **Prudential Financial Wellness Survey**: This data set, collected before and during the pandemic, includes responses from over 241,000 individuals who participated in an online financial wellness assessment. Key variables analyzed include age, gender, marital status, household income, and expected retirement age.

- **Health and Retirement Study[3] (HRS)**: A nationally representative longitudinal survey of more than 37,000 individuals over the age of 50. The HRS provides comprehensive biannual data on participants' health, wealth, and retirement decisions over time (from 1992 to 2020).

Despite the pandemic, the trend of retirement age expectations for older Americans remained largely unchanged.

The data were analyzed using statistical methods to identify patterns and correlations between expected and actual retirement ages. Factors such as health, wealth, gender, education, life expectancy, marital status changes, financial planning horizon, and major illness diagnoses were examined to understand their impact on retirement decisions.

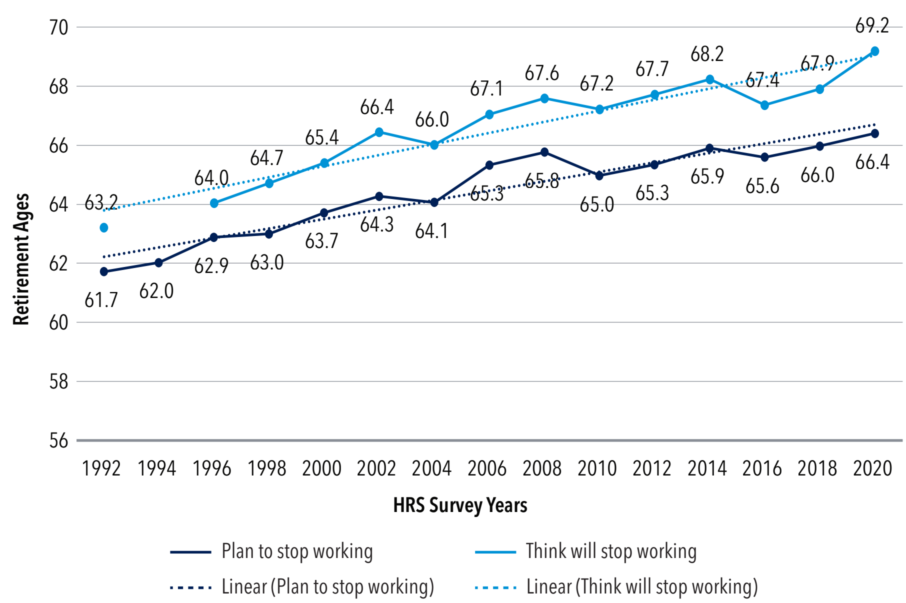
Impact of COVID-19 on Retirement Expectations

Contrary to expectations, the COVID-19 pandemic did not significantly alter the retirement expectations of older Americans. Econometric analyses[4] of both data sets indicate that the upward trend of retirement age expectations remained uninterrupted throughout the pandemic period.

Based on the HRS data, Exhibit 1 indicates that, in general, there is a natural upward trend for participants to expect a later and later retirement age when they are older. However, this natural trend of delaying retirement has no statistically significant relationship with the COVID-19 pandemic.

Exhibit 1: **Average Expected Retirement Age by Respondent Age (HRS data)**

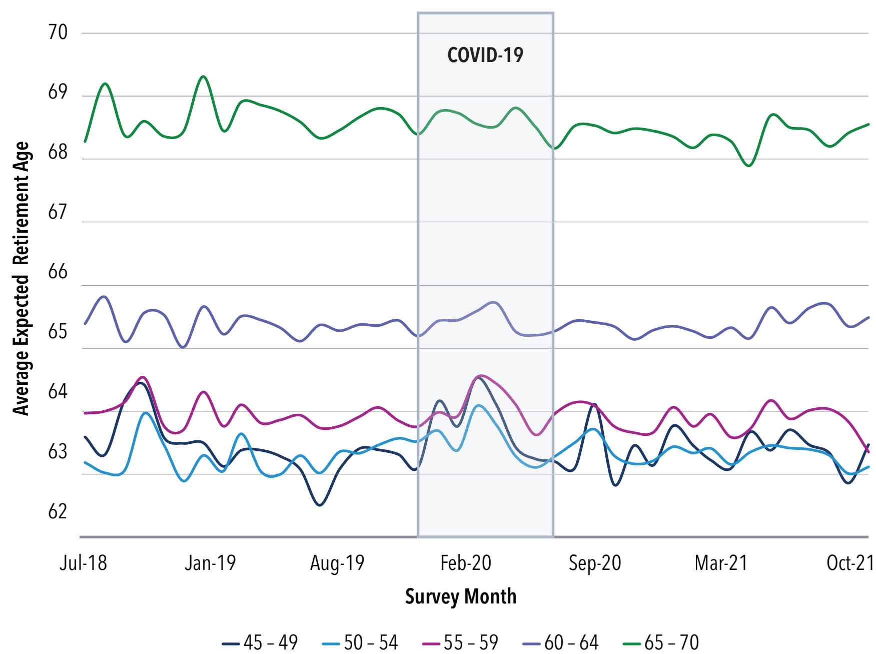
Note: Respondents in the HRS survey answered two questions regarding their expected retirement age. One was about their "planned stop-working age." The other basically asked the same question but changed the narrative to "expected stop-working age." These two questions regarding planned and actual retirement ages were asked for each of the HRS core waves (except for the 1994 wave).



Using the Prudential Financial Wellness Survey data, Exhibit 2 further demonstrated that retirement age expectations are relatively sticky, especially among older households.

Exhibit 2: **Average Expected Retirement Age by Month and Respondent Age Group (Prudential Data)**

Note: Data Source: Financial wellness assessment by Prudential Financial (2017 – 2021). The fluctuations during and shortly after the COVID-19 period are not significantly larger than those before the pandemic period. Meanwhile, although different ages responded differently, their responses within age groups did not differ meaningfully during vs. shortly before and after the COVID-19 period.



Discrepancies Between Expected and Actual Retirement Ages

If COVID-19 did not alter participants' retirement expectations significantly, what does? Also, are there significant gaps between expected and actual retirement ages? Next, this study focuses on investigating the different socioeconomic and demographic factors that could potentially impact older American adults' expected and actual retirement ages, using the longitudinal HRS data. It also examines how the change of these factors shifts the gaps between the participants' retirement expectations and reality.

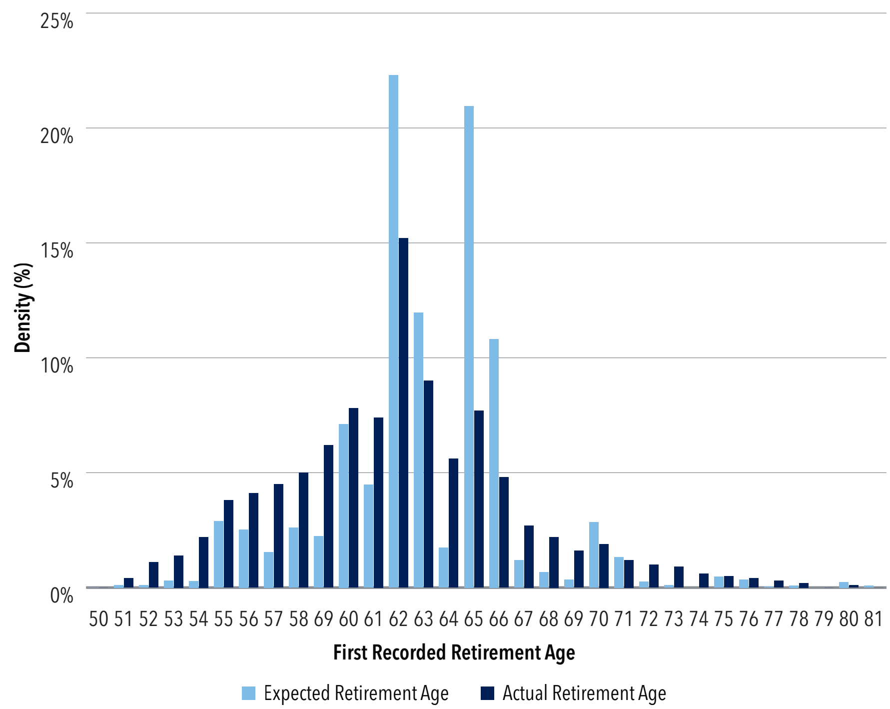
Although the distribution of older American's expected retirement age is bimodal, their actual retirement age distributions is left-skewed (retire earlier), with a clear mode at age 62.

Exhibit 3 shows that older **Americans' expected retirement ages are bimodal**, often centered around ages 62 and 65 – the Social Security (SS) retirement benefit claiming ages for initial and full benefits[5].

Although participants plan to retire around those two ages, Exhibit 3 also indicates that their actual retirement ages are more spread out, and they are more likely to retire at age 62 or before, with a clear mode of 62. **More than 44% of the respondents retire before age 62**, which is concentrated on the left side of the peak, indicating a earlier than expected retirement. In contrast, only 24% of participants expected to retire before age 62 when they were in their 50s.

Exhibit 3: **Distribution of Expected & Actual Retirement Age for All Retired Participants between 50 and 60 Years Old in 1992 (HRS Data)**

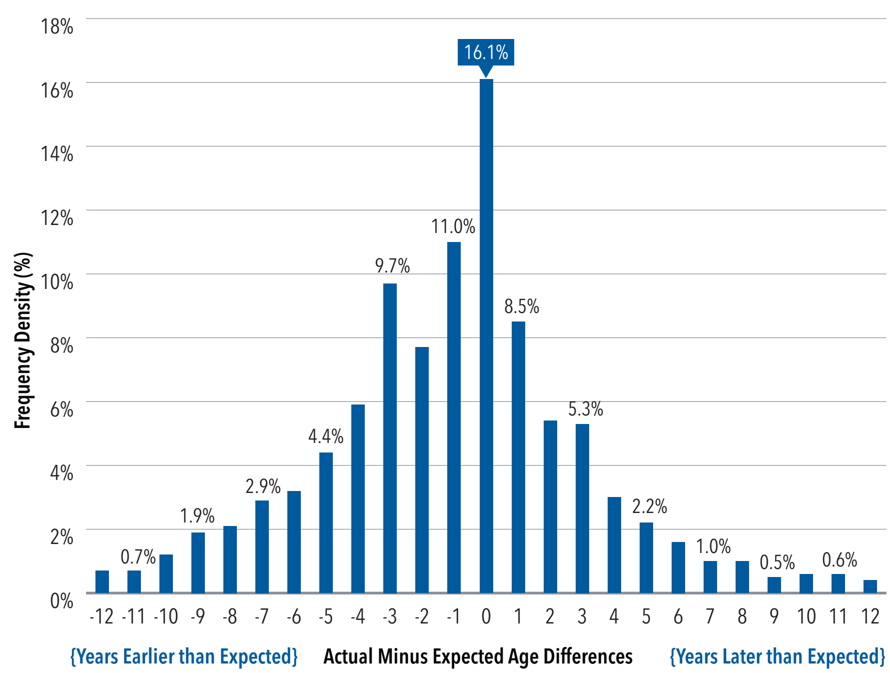
Note: The number of primary respondents in this chart is 3,289 before weights are applied. After applying the 1992 respondent level analysis weight, it represents 8,361,046 older Americans in the U.S.



Using the actual retirement age minus the expected retirement age, which is the error in expectations, the distribution of these differences also implies a higher likelihood of retiring before expectations. As Exhibit 4 indicates, only one in six (16%) retired at the age they expected. Including those that accurately forecast their own retirement age, **36% retired within (plus or minus) one year of their expected first retirement age**, and 64% retired within three years of their expected first retirement age. Almost **5% retired more than ten years away from the retirement age forecasted** when the participants were in their 50s.

Exhibit 4: **Actual Age Minus 1992 Expected Retirement Age (HRS Data)**

Note: The number of primary respondents in this chart is 3,289 before weights are applied. After applying the 1992 respondent level analysis weight, it represents 8,361,046 older Americans in the U.S.



53% of older Americans retire earlier than planned.

The notable gap between older Americans' actual and expected retirement ages is the motivation to explore the factors that could potentially influence retirement decisions. Utilizing the cross-sectional and longitudinal econometric analyses, this study tested different socioeconomic and demographic factors that could possibly affect older Americans' retirement expectations and the gaps between their actual and expected retirement ages. The factors tested in this study include wealth, health, gender, education level, self-perceived life expectancy, age, financial planning horizon, major illness diagnosis, race, number of children, and marital status. Table 1 summarizes some of these variables with significant effects on older Americans' retirement age decisions (based on the results of the econometrics analyses detailed in the full version of the research paper).

Table 1: **Association or Impact of Different Factors on Retirement Age Decisions (Summary)**

Factors	Likelihood of Retiring	Expectation Accuracy More Accurate Less Accurate
Health Improve	Likely to retire **later**	
Wealth Increase	Likely to retire **earlier**	
Self-perceived Life Expectancy Increase	Likely to retire **later**	
Getting Married	Likely to retire **later**	
Divorce/Widowed	Likely to retire **earlier**	
Major Illness Diagnosis	Likely to retire **earlier**	

Based on the regression analyses using the HRS data, many older Americans retire earlier than planned, with health, wealth, education, life expectancy, and changes in marital status being the most influential factors.

Both physical and financial health factors are key drivers in retirement timing decisions.

- **Health**. Poor health often leads to earlier retirement, as individuals facing health challenges may find it difficult to continue working. Conversely, those in better health tend to retire later, as they are physically capable of working longer and may choose to do so to increase their retirement savings.
- **Wealth**. Individuals with greater financial security have more flexibility in deciding when to retire. Those with higher wealth levels can afford to retire earlier if they choose, as they have sufficient resources to support themselves without the need for continued employment. Conversely, individuals with less wealth may need to work longer to ensure they have adequate savings for retirement.
- **Education**. Education influences retirement expectations and actual retirement ages. Higher education levels are associated with later retirement due to factors such as job satisfaction, financial security, and health awareness.
- **Life Expectancy**. Individuals with a longer self-perceived life expectancy tend to retire later, planning to work longer to ensure sufficient savings for a longer retirement period.

- **Marital Status**. Changes Marital status changes, such as divorce or widowhood, often lead to earlier retirement due to financial adjustments, emotional impact, and changes in support systems. However, longitudinal data indicate that getting married before retirement is likely to cause the participants to work longer than expected, although their retirement expectations are hastened.

- **Major Illness Diagnoses**. Major illness diagnoses often lead to earlier retirement as individuals prioritize their health and well-being over continued employment. The financial burden of medical treatments and the desire for a better quality of life also influence this decision.

In summary, individuals experiencing unexpected health shocks often retire earlier than anticipated. Economic downturns, such as the 2008 financial crisis, have led to earlier-than-planned retirements for some individuals due to job loss or reduced financial stability. Changes in Social Security policies and employer-provided retirement benefits could significantly influence retirement timing, with individuals adjusting their plans based on the availability of benefits.

Implications for Various Groups

Consultants play a crucial role in guiding individuals through retirement planning. The findings of this study highlight the need for personalized retirement planning services that consider the diverse factors influencing retirement decisions, such as health, wealth, education, life expectancy, marital status changes, and major illness diagnoses. Consultants should focus on creating flexible retirement plans that can adapt to changing circumstances and provide comprehensive financial advice to help clients achieve their retirement goals.

Personalized financial planning is crucial to bridge the gap between retirement expectations and reality.

Plan sponsors need to design retirement plans that accommodate the varied needs of participants. This study's findings suggest that flexible retirement options, such as phased retirement and part-time work opportunities, can help individuals transition smoothly into retirement. Plan sponsors should also consider offering wellness programs and financial education to support participants in making informed retirement decisions.

Participants should be aware of the factors that can influence their retirement decisions and plan accordingly. Understanding the impact of health, wealth, education, life expectancy, marital status changes, and major illness diagnoses can help individuals make more informed choices about when to retire. Participants should also consider seeking professional financial advice to ensure they are adequately prepared for retirement.

Conclusion

Summary of Key Findings

This study explored the discrepancies between retirement expectations and actual retirement ages among older Americans. Despite the COVID-19 pandemic, retirement expectation trends have remained relatively stable, while actual retirement ages tend to be earlier than expected. Key factors influencing retirement decisions include health, wealth, education, life expectancy, marital status changes, and major illness diagnoses. Understanding these factors is essential for improving retirement planning and policymaking.

Recommendations for Future Research and Policy

Future research should focus on conducting longitudinal studies to track retirement expectations and actual retirement ages over time. Including more diverse populations in future research can help understand the unique challenges faced by different demographic groups. Additionally, further research on the impact of economic factors, such as market volatility and inflation, on retirement decisions can provide valuable insights for financial planning.

Understanding the factors influencing retirement decisions is vital for effective planning and policy-making.

Policymakers should consider promoting flexible retirement plans that accommodate the diverse needs and circumstances of retirees. Implementing health and wellness programs can help individuals maintain better health and potentially extend their working lives. Enhancing financial education programs can also help individuals make more informed retirement decisions and improve their overall financial wellbeing.

To explore this topic in greater depth, access the comprehensive paper here.

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Endnotes

1. "(-)" means the impact is negative, i.e., retire earlier than expected, and "(+)" means the impact is positive.

2. Research questions: Do retirees' expectations match the reality of when they eventually retire? How significant are the gaps between the participants' actual and expected retirement ages? What factors affect people's retirement expectations in their 50s and impact their actual retirement decisions a decade or two later?

3. Conducted by the Institute for Social Research at the University of Michigan.

4. Tested with both OLS (ordinary least squares) and DID (difference in difference) regression analyses.

5. Note that the full retirement age (FRA) in Social Security for those 50-year-olds in 1992 was around 65 instead of 67. In addition, 65 is also the age for Medicare eligibility.

Appendix – Selected Literature Review of Previous Studies

Socioeconomic and Demographic Factors:

- Szinovacz, Martin, and Davey (2014) analyzed the Health and Retirement Study (HRS) data and found that debt, assets, education, race, gender, marital status, and income significantly influence retirement decisions.
- Coile and Gruber (2007) noted that the eligibility age for retirement benefits considerably impacts the actual retirement date.

Economic Downturns and Retirement:

- Economic downturns like the Global Financial Crisis and the COVID-19 pandemic may impact retirement decision-making.
- During the COVID-19 pandemic, Coile and Zhang (2022) found an increasing trend of earlier retirements.
- Similarly, Davis (2021) observed that a higher proportion of part-time older workers and those in high-contact occupations retired earlier during the pandemic.

Retirement as a Process:

- Cregan, Perera, and Sardeshmukh (2023) emphasized that retirement is a process rather than a one-time decision, with intentions and plans evolving over time.

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