

Worker Expectations of Never Being Able to Retire

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Abstract

In the 2010 Survey of Consumer Finances (SCF), 19% of full-time workers age 35 to 70 who were household heads expected to never retire, the highest percent of such responses recorded in 1995 to 2010 SCF datasets. Previous research using the SCF has not analyzed those workers who have the expectation not to retire. Based on a logistic regression analysis for never retire versus any specific planned retirement age, the likelihood of expecting to never retire decreases with education, and net worth, and is lower for those who have retirement as a savings objective, for those with a defined benefit pension, and for households with everyone covered by medical insurance. The likelihood of expecting to never retire is higher for those who expect their retirement income to be very inadequate, for self-employed, for Hispanic households, and for those who expect the economy to be worse in the future. Current health and life expectancy were not related to expecting to never retire. Advisors working with clients who state that they never expect to retire should carefully assess whether that expectation is a preference or a reflection of the client's failure to prepare for retirement.

Background

The United States is expected to experience rapid growth in its older population (Grayson & Velkoff, 2010) while at the same time, life expectancy continues to increase among the elderly population. According to Arias (2004), life expectancy at age 55 rose from 17.9 years in 1900, to 26.0 years in 2001. Arias estimated that life expectancy at older ages will continue to rise, at least through the end of the current century. The increase in older population overall and the increase of the life expectancy of the elderly has raised two problems: first, it is possible that the Social Security system might fall short since the population who depend on Social Security will

increase relative to the working population; second, the Social Security funding span will increase due to the life expectancy increase. The labor force participation of elderly men fell substantially from 1950, when almost 46% of men 65 and older were in the labor force, to 16% in 1985 (Purcell, 2000). The labor force participation of older men and older women has increased since 1992 (Leonesio, Bridges, Gesumaria, & Del Bene, 2012).

For financial planners, planning for a later retirement age means more time for the asset accumulation period, and therefore leads to the change of consumption and saving planning before and after retirement. However, if some workers have unrealistic expectations about how long they will be willing and able to work, assessments of retirement adequacy may be inaccurate. It is important to assess whether worker expectation of never retiring is a preference or resignation to the perception of inadequate resources for retirement.

Contributions of This Study

In this study, we focus on worker expectation to never retire. None of the previous studies of U.S. workers have had a focus on expectation to never retire. In previous studies, “planned retirement age” refers to a specific age. Montalto, Yuh, and Hanna (2000) excluded workers who said they would never retire. We find that in the 1995 to 2010 SCF datasets, 14% to 19% of workers gave “never retire” as a response. The substantial proportion of workers in this category suggests that this segment of workers should not be ignored in research on retirement plans and retirement adequacy. No published research has analyzed factors related to the “never retire” response, with a logistic regression on the never retire versus giving some specific planned retirement age.¹

Methodology

Data and Sample Description

The 2010 Survey of Consumer Finance (SCF) dataset is used. The survey is sponsored by the U.S. Federal Reserve Board in cooperation with the U.S. Department of the Treasury, and it has been conducted every three years since 1983. The SCF provides relatively full records of household information, including working status, health status and financial status. The SCF is

¹ We have deleted the literature review and some other sections from this version of the paper, but the reference list includes all items we referred to in developing this paper. The full paper is available from Sherman D. Hanna, sdhanna@gmail.com.

an ideal dataset for this research because respondents were asked detailed information regarding their retirement including expected retirement age, health status, retirement funding plan, current work status, demographic background, and financial and non-financial assets ownership.

Our analysis sample includes full-time working household heads aged between 35-70 years old. We selected ages 35 to 70 because some previous research using the SCF (Montalto et al., 2000; Zhang & Hanna, 2011) had used that age range, but when we selected only full-time heads employed full-time and age 35 to 60, we obtained similar results in our multivariate analysis. Our sample criteria result in 3,131 households in 2010 (Table 1).

Variables

Dependent Variable: Never retire

The dependent variable is created based on a question in the SCF, which asks about the household head's expected age to stop working full-time. A binary variable for never retire is also created for the logistic regression. About 19% of respondents expected the head to never retire, compared to 16% in 1998 and 2001 and 15% in 2007 (Table 1). The proportion expecting to retire before 62 dropped substantially, from almost 27% in 2007 to 20% in 2010 (Table 1).

Independent Variables

There are 28 independent variables in the logistic regression. The independent variables include financial variables and non-financial variables. The measurement of each independent variable is described below.

Health conditions: four types of health categories (excellent, good, fair, poor) are available in SCF. The reference group for multivariate analyses is excellent.

Education level: Five categories of the highest education of the head are classified in the multivariate analysis: less than high school, high school, some college, bachelor degree and post-bachelor degree. The reference group is the less than high school group.

Expected economic condition: the SCF dataset includes a question asking the respondent's expectation for the U.S. economy. The three types of expected economy conditions are better, worse and the same. The better condition is the reference group.

Net worth: the SCF dataset includes comprehensive information regarding a household's assets and debts. The difference between the assets and debts is the household's net worth. To allow for non-linear effects we use the natural log of net worth, with a value of $\ln(.01)$ for net worth values of zero or less.

Self-employment: defined by the head's employment status. The reference group is not self-employed.

Perceived adequacy of retirement income: the SCF has a question recording a respondent's perception of the adequacy of retirement income: How would you rate the retirement income you expect to receive from Social Security and job pensions? (Include 401(k) accounts and all other types of pensions.) The responses could range from totally inadequate to "enough to maintain living standards" to very satisfactory.

Insurance coverage: the SCF asks about health insurance coverage (both government health insurance, and private health insurance) of all household members. A household is considered to be covered by insurance only if all of its members are covered.

Respondent's expected inheritance: the SCF dataset includes a question recording a respondent's expected amount of inheritance. We calculated the 90th percentile of the amount listed by those stating they expected to receive a substantial inheritance, \$53,000, and created a dummy variable equal to 1.0 if the inheritance expected was over \$53,000, and 0.0 otherwise.

Retirement as a saving goal: the SCF dataset includes a question recording respondent's major saving goal. If the saving goal is either "retirement" or "funeral expenses", then the respondent is considered to set "retirement" as the major saving goal.

Control Variables: Demographic Variables

Race-ethnicity: Race/ethnicity of the respondent was measured with four dichotomous variables: White; Black/African American; Hispanic; Asian and others. The reference group is "White".

Household types: household type was measured with four dichotomous variables: married; single male; single female; partner. We categorize households as couple households only if both spouses/partners share resources in the primary economic unit. The small number of same sex married couples are coded as partner couples due to the similar treatments in terms of the Social Security benefit. The reference group for multivariate analyses is "married couple".

Current age: household head's current age is a continuous variable with a range from 35-70.

Life expectancy: the SCF includes a variable recording head's life expectancy, although responses range up to living to 150. We created three dummy variables: under 71, 71 to 80, and 81 and over. Under 71 is the reference category.

Logistic regression model is used to test the effect of each predictor on the likelihood of expecting to never retire.

Results and Discussion

Descriptive results

Table 1 shows the distribution of categories of expected retirement age for survey year for households with a full-time employed head age 35-70. By 2010 there was a large decrease in the proportion expecting to retire before 62, ranging from 31% in 1995 to 20% in 2010. The proportion expecting to never retire reached a low in 2007, 15%, but then increased to 19% in 2010.

Multivariate Analysis Results

Table 2 presents the logistic regression results on "never retire". If a person says "he or she will never retire" then "never retire" equals to 1, otherwise, "never retire" equals to 0.

Financial variables. Net worth is negatively related to the "never retire" decision. This result is consistent with the hypothesis that households with higher net worth are more likely to expect to achieve retirement adequacy and thus less likely to expect to work forever. Those who perceive that retirement income will be very inadequate are much more likely to state never retire than those who are very satisfied with their expected retirement income. This result is consistent with the hypothesis that expected retirement adequacy will be related to earlier retirement. Having a defined benefit pension is negatively related to expecting to not retire. Having everyone in the household completely covered by health insurance is negatively related to the likelihood of expecting to never retire. Expected a substantial inheritance is not significant.

Demographic Variables. Self-employment status has positive impact on the probability of saying “never retire”. This result is consistent with the hypothesis that one who is self-employment has more self-control on the job access than those who are not self-employed. As the head’s education increases, the likelihood of expecting to not retire decreases. This result is consistent with the hypothesis that higher education level usually possess higher financial literacy, and are more likely to achieve retirement adequacy. As age increases, the likelihood of expecting to not retire increases. Hispanics are more likely than Whites to expect to not retire, but Blacks and Asians are not significantly different from Whites in the likelihood of expecting to not retire. Health status and household type are not significant. Life expectancy categories are not significant, although there is a weak positive association ($p=.052$ for a one-tail test) between expecting to life past 80 and expecting not to retire.

Attitude Variables: Having retirement as a saving goal is negatively related to the likelihood of expecting to never retire. Those who expect the economy to be worse are more likely to expect to never retire.

Conclusions and Implications

The most salient results from the logit can be summarized as follows:

- Perceived inadequacy of retirement income is positively related and net worth and having a defined benefit pension are negatively related to expecting to not retire. Clearly households who do not expect to have adequate resources are more likely to expect to never retire.
- The higher the education level, the less likely is the expectation of never retiring, thus suggesting that lack of ability to plan is related to expecting to never retire.
- Self-employment status is positively related to the expectation of never retiring. This pattern may be related to the ability of self-employed workers to control their work lives, and thus be related to a preference to remain employed. On the other hand, self-employed workers are less likely to have access to employer sponsored retirement plans such as 401K plans.
- Having retirement as a saving goal is negatively related to expecting to never retire. This pattern may reflect a stronger preference for leisure, but also could reflect an ability to plan.

There are several implications for both public policymakers and financial planners. A better understanding of expected retirement age will help develop better policies related to pensions, income taxes, and Social Security rules. For financial planners, a better understanding of expected retirement age, including the expectation of never retiring, will help financial planners better estimate retirement needs, and decide on appropriate assumptions when a client states that he or she expects to never retire.

Most studies on retirement adequacy using respondent expected retirement ages either assume an arbitrary retirement age such as 65, or use respondent expected retirement ages as if the responses are exogenous. Several studies (Yuh, Montalto, & Hanna, 1998; Yuh, Hanna, & Montalto, 1998; Kim, Hanna, & Chen, 2012) have assumed that respondents who expect to not retire will retire at age 70. Our results suggest that none of these assumptions are plausible, as both lower net worth and a perception that retirement income will be inadequate are related to a greater likelihood to expect to never retire. It also seems plausible that some workers' expectations that they will work far longer than usual retirement ages are unrealistic, especially for workers with low levels of education.

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Table 1: Distribution of Expected Retirement Age by Survey Year, 1995-2010 SCF Datasets

| Expected Age | 1995 | 1998 | 2001 | 2004 | 2007 | 2010 |
|----------------------|-------|-------|-------|-------|-------|-------|
| Before 62 | 30.8% | 29.2% | 31.6% | 28.1% | 26.6% | 19.8% |
| 62-70 | 48.9% | 50.4% | 47.5% | 49.2% | 51.3% | 56.8% |
| Specific age over 70 | 3.8% | 4.7% | 5.1% | 5.0% | 6.9% | 4.6% |
| Never retire | 16.6% | 15.8% | 15.8% | 17.7% | 15.3% | 18.8% |
| N | 2,030 | 2,167 | 2,304 | 2,348 | 2,326 | 3,131 |

Percentages are weighted proportions for each survey year. The number of households in each survey year (N) represents the unweighted average number of households in each survey year meeting the sample selection criteria: households with a full-time employed head age 35 to 70.

Table 2: Logistic Regression Analysis of the Likelihood of Full-time Worker Household Heads Age 35-70 Expecting to Never Retire, 2010

| Variable | Coefficient | Standard | 2-tail p | Odds |
|--|-------------|----------|----------|-------|
| Log (net worth) {Ln(.01) if net worth≤0} | -0.0334 | 0.0106 | .003 | 0.967 |
| Racial ethnic status of respondent {reference category = White} | | | | |
| Black | -0.1685 | 0.1876 | .368 | 0.845 |
| Hispanic | 0.3520 | 0.1606 | .028 | 1.422 |
| Asian/other | -0.4286 | 0.2648 | .105 | 0.651 |
| Have defined benefit pension plan | -0.8526 | 0.1991 | <.001 | 0.426 |
| Perception of the adequacy of retirement income {reference category = very satisfactory} | | | | |
| Satisfactory | 0.0630 | 0.2946 | .831 | 1.065 |
| Enough to maintain living standards | 0.1812 | 0.2506 | .471 | 1.199 |
| Inadequate | 0.2299 | 0.2559 | .368 | 1.259 |
| Very inadequate | 0.9008 | 0.2364 | <.001 | 2.462 |
| Head self-employed | 0.6305 | 0.1161 | <.001 | 1.878 |
| Highest education level of head {reference category = less than high school degree} | | | | |
| High school degree | -0.6991 | 0.1908 | <.001 | 0.497 |
| Some college | -0.7702 | 0.2006 | <.001 | 0.463 |
| Bachelor degree | -0.8581 | 0.2035 | <.001 | 0.424 |
| Post-bachelor degree | -1.0849 | 0.2148 | <.001 | 0.338 |
| Perceived health status of head {reference category = excellent health} | | | | |
| Good health | -0.1413 | 0.1114 | .208 | 0.868 |
| Fair health | -0.1379 | 0.1656 | .433 | 0.871 |
| Poor health | -0.2344 | 0.3801 | .547 | 0.791 |
| Have retirement as a savings objective | -0.5933 | 0.1001 | <.001 | 0.549 |
| All in household covered by health insurance | -0.4040 | 0.1544 | .009 | 0.668 |
| Age of head | 0.0150 | 0.0062 | .016 | 1.015 |
| Expect an inheritance of more than \$53,000 | -0.2196 | 0.1736 | .205 | 0.803 |
| Expectations for economy {reference category = better} | | | | |
| Worse | 0.3324 | 0.1310 | .011 | 1.394 |
| Same | 0.1158 | 0.1120 | .302 | 1.123 |
| Life expectancy for head {reference category = under 71} | | | | |
| Live to 71 to 80 | 0.0496 | 0.1154 | .666 | 1.051 |
| Live to 81 or over | 0.2718 | 0.1673 | .103 | 1.312 |
| Household type {reference category = mixed sex married couple} | | | | |
| Partner couple and married same sex couple | 0.3583 | 0.1987 | .071 | 1.431 |
| Single male | 0.2290 | 0.1529 | .134 | 1.257 |
| Single female | -0.1276 | 0.1457 | .379 | 0.880 |
| Intercept | -0.9838 | 0.4450 | .027 | |
| Concordance (averaged for 5 implicates) | 73.3% | | | |
| Unweighted RII analysis of 2010 SCF dataset. | | | | |