



## Australian baby boomers retiring 'early': Understanding the benefits of retirement preparation for involuntary and voluntary retirees



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### ABSTRACT

The first of the baby boomers have reached retirement age, but some have retired 'early' with varying degrees of personal choice. Preparation for retirement can lead to well-being in later life, but few studies have considered the preparations of involuntary retirees or the pathways that link their preparations with retirement outcomes. This research draws on a sample of 304 retirees from the Ageing Baby Boomers in Australia Study (2009) to examine how preparedness for retirement relates to voluntary and involuntary retirees' life satisfaction and how this relationship is explained by psychological, activity-based, and economic theories. Preparedness predicted life satisfaction for voluntary and involuntary retirees and each of theoretical pathways was supported. Although those retiring involuntarily were less prepared than voluntary retirees, their preparatory behaviours were still associated with life satisfaction. These results suggest that retirement policy and planning initiatives should aim to facilitate a holistic approach to retirement planning for future retirees, particularly those facing an early and unexpected retirement.

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### Introduction

Research into the post World War II baby boom generation (born 1946–1964) continues to grow as the front end of this generation approaches retirement. Of particular concern is the expectation placed on older adults to prolong their working lives, for both health and economic benefits and at the individual and societal levels (Banks, 2005). However, less attention has been paid to boomers who have already retired either voluntarily or because poor health, forced redundancy, or care giving commitments has left them little choice but to retire (Peterson & Murphy, 2010). Moreover, the recent economic downturn and resultant Global Financial Crisis (GFC) have exacerbated the effects of an involuntary retirement. For example, Australian workers and retirees have seen a reduction in superannuation holdings (Wettenhall, 2011), and this has led to uncertainty about the future (Humpel,

O'Loughlin, Snoke, & Kendig, 2010), plans to prolong working careers, and an expectation of being reliant on Australia's Age Pension (O'Loughlin, Humpel, & Kendig, 2010).

Australia's retirement income policy is based on a three-pillar approach: a means-tested age pension, which ensures an 'adequate' standard of living from age 65; personal savings; and employer-sponsored superannuation (Borowski, 2008). Australia's superannuation system is mandatory for workers and comprises at least a 9% wage-based employer contribution for paid workers. Workers have the option of contributing between 0 and 7% of their salary to the scheme and can access their funds from age 55 (if born before 1960) to 60 (if born after 1964, Australian Bureau of Statistics, 2013). But, as the option to generate retirement wealth through continued employment will not be available for all baby boomers, researchers must look to factors other than workforce participation to fully understand the health and economic well-being of those who may be forced into an early retirement. The first aim of this research is to examine the efficacy of retirement planning as an

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alternative way of promoting healthy ageing for those unable or unwilling to remain in paid employment. The second aim is to examine the theoretical mechanisms that link retirement preparation with positive outcomes for voluntary and involuntary retirees.

### *Involuntary retirement*

Involuntary retirees are those exiting the workforce earlier than anticipated and comprise between 20% and 30% of retirees in both the U.S. and Australia (Barrett & Brzozowski, 2010; Raymo, Warren, Sweeney, Hauser, & Ho, 2011). Poor health is one of the most common reasons for an involuntary retirement (Idler & Benyamini, 1997), affecting 18% of women and 31% of men aged between 45 and 64 in a recent Australian study (Pit, Shrestha, Schofield, & Passey, 2010). Involuntary retirement is widely associated with economic disadvantage (Ong, 2009; Schofield et al., 2011), poor health (Stephens, Alpass, Towers, & Stevenson, 2011), and negative social and psychological outcomes (De Vaus, Wells, Kendig, & Quine, 2007; Rice, Lang, Henley, & Melzer, 2011). For example, a 27-year follow-up study (Swan, Dame, & Carmelli, 1991) showed that involuntary retirees reported poorer retirement adjustment and more depressive symptoms in addition to poorer physical health status (see also Shultz, Morton, & Weckerle, 1998).

Explanations as to why involuntary retirement is responsible for a range of negative outcomes are typically focused on psychological states and preparedness for the future. For example, Beehr (1986) has argued that individuals have a reduced sense of personal control when retirement is involuntary and it is the lack of control that leads to poor retirement adjustment. Moen (1996) argues that individuals will find it easier to adapt to an event that is planned or anticipated compared to an unanticipated event such as involuntary retirement. A number of studies have shown that involuntary retirees enter retirement less prepared than voluntary retirees (Elder & Rudolph, 1999; Wong & Earl, 2009) because they have had less time to accrue retirement finances (Kemp, Rosenthal, & Denton, 2005) or to consider what they will do in retirement. However, preparatory activities can assist the individual develop an understanding of what to expect from retirement (Noone, Stephens, & Alpass, 2010a) as well as fostering feelings of control or mastery (Donaldson, Earl, & Muratore, 2010). It is plausible then that involuntary retirees may fare better in retirement if they could prepare in advance for this event (see Elder & Rudolph, 1999).

### *Preparation for retirement*

Despite the difficulties that certain groups face in retirement, research suggests that retirement preparation or planning activities may increase the likelihood of experiencing a satisfying and healthy retirement (Quick & Moen, 1998; Topa, Moriano, Depolo, Alcover, & Morales, 2009; Zhu-Sams, 2004). For example, financial preparation may negate some of the economic disadvantages of retiring early while preparing for potential social and psychological changes may improve adjustment to an unexpected retirement (Adams & Rau, 2011). Planning for physical activity, leisure activities, hobbies, and volunteer activities in retirement is positively associated with

retirement satisfaction (Schellenberg, Turcotte, & Ram, 2005). Formal preparation through attendance at seminars and workshops has also been associated with positive outcomes (Elder & Rudolph, 1999; Sharpley & Layton, 1998). Longitudinal research indicates that the positive effects of retirement planning remain significant after controlling for socioeconomic and demographic factors, and the voluntariness of the retirement decision (Noone, Stephens, & Alpass, 2009; Reitzes & Mutran, 2004; Spiegel & Shultz, 2003). Although there are exceptions (Donaldson et al., 2010), research generally suggests that preparing for retirement may be beneficial, particularly for disadvantaged groups including women and those forced into an early retirement. However, this may depend, in part, on the theoretical pathways that link preparatory activities to a positive retirement experience.

### *Theoretical mechanisms linking preparedness with positive outcomes*

Psychological, activity, and economic theories may each explain how retirement preparations influence later life outcomes. For example, Taylor and Doverspike (2003) contend that planning activities may lead to better retirement adjustment by clarifying expectations of retirement and promoting confidence in the future. This theory is based on Bandura's (1977) earlier work on self-efficacy, which posits that undertaking task-related behaviours (i.e. preparing for retirement) increases the individual's confidence in their ability to undertake the task (i.e. retirement) (Taylor-Carter, Cook, & Weinberg, 1997). Those who have confidence in the future will adapt more easily to retirement compared to those who are less optimistic. Several studies have provided empirical support for this psychological theory (Gall & Evans, 2000; Kim, Kwon, & Anderson, 2005; Taylor, Goldberg, Shore, & Lipka, 2008; Taylor-Carter et al., 1997).

Researchers have also argued that making preparations to maintain or increase levels of mental, social, and physical activity in retirement provides retirees with valuable social roles while also promoting mental and physical health (Noone et al., 2010a). For example, pre-retirees' research into and eventual take up of voluntary roles may promote adjustment to retirement by compensating for losses related to the worker role (Havighurst, 1963). In addition, staying socially and mentally active in retirement provides a sense of accomplishment and stimulation (Stephan, Fouquereau, & Fernandez, 2008) and assists in maintaining levels of control and happiness in retirement (Antonucci, 2001; Tkach & Lyubomirsky, 2006). In support of activity theory, Rosenkoetter and Garris (2001) have linked retirement planning with increases in social activity, reading, travelling and participation in religious activities, which are in turn associated with better psychological health and adjustment to retirement (Pushkar et al., 2010; Stephan et al., 2008).

Finally, life-cycle economic theory (Ando & Modigliani, 1963) suggests that financial planning via the accumulation of retirement assets leads to positive outcomes by allowing for the maintenance of living standards. Browning and Crossley (2001) argue that individuals aim to smooth consumption over their life course. This means borrowing prior to labour market entry, wealth accumulation during working life, and spending or dissaving throughout retirement (Browning & Crossley,

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