COMMENTARY

RETIREMENT

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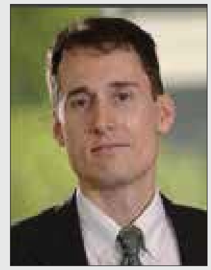

The Retirement Journey

How do we define retirement in the 21st century? I think we all agree that the simple, traditional 20th century definitions — stopping work at a single job, or the stage that immediately follows this stoppage — are inadequate to the current realities of life and work. Retirement today often lacks a clear entry point or a known timetable. People routinely work in retirement, and that tendency will increase in the coming decades. Employment itself will undergo major changes, with the rise of non-traditional work arrangements.

Should we then discard the concept of retirement entirely? I think that would be a mistake. Perhaps a better path forward would be to consider the *process* of retirement — a journey comprised of many stages, steps, and decision points. Retirement then becomes a transitional period, usually occurring late in life, characterized by a shift from full-time employment to less frequent work or, in most cases, the absence of paid work. While this transition may be brief and orderly, more likely it will be extended and complex, necessitating more careful planning and expert guidance.

There are multiple factors that help to map out a person's retirement journey:

Working for pay. As we have noted for many years, retirement status is not synonymous with employment status. Many pre-retirees plan to work, and a substantial minority of retirees do work, especially in their 60s. People may reduce hours, work part of the year, choose gig jobs, and take other steps to move from full-time employment to full-time retirement. Some will even "un-retire," returning to work after a hiatus. In addition, as described in a recent LIMRA Secure Retirement Institute study of people in the process of retiring, the motivations for work before and after retirement are different — many are seeking personal fulfillment rather than money to pay the bills. Although work in retirement is unlikely to be a long-term, primary source of income for retirees, it can help people delay claiming Social Security benefits, stay mentally engaged, and fund discretionary interests.[1]

Milestone ages. In the U.S. retirement system, there are a number of milestone ages, when people need to make important decisions. These milestones — between ages 55 and 70 — mark the road to retirement. Some of these ages coincide with tax-advantaged savings becoming available for penalty-free withdrawals. Others mark the beginning of eligibility for benefits, including Social Security, Medicare, Medicare supplement, and pensions. Our research demonstrates that people retire, create retirement income plans, roll over and consolidate assets, and purchase annuities at these ages. The fact that these milestones do not all center on a *single* age means that the retirement transition period may extend for many years. At the same time, the replacement of defined benefit plans — which include a date certain for benefit eligibility, usually age 65 — with defined contribution plans means that workers are less inclined to plan to retire at age 65, and are instead incented to work longer.

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Family matters. From the industry's perspective, it's important to consider the *household's* retirement status rather than that of a single individual. Household finances are usually handled jointly, and often married/partnered people do not consider themselves to be truly "retired" until their spouse/partner is retired. Unlike previous generations, for whom retirement was often limited to a single main breadwinner, today's couples are more likely to have comparable earnings and retirement benefits. Thus the retirement process encompasses the activities of two individuals.

In addition to these factors, our research finds that many people retire earlier than planned, with health problems, layoffs, and negative working conditions contributing to these decisions. Others have to delay retirement because they find they can't afford to retire when planned. Thus the beginning stages of the transition may occur years before someone retires fully, or may occur in an uncomfortably brief time span.

Among other implications, this framework — retirement as a transition period, not a single, one-time event — presents an opportunity for ongoing interaction between financial professionals and their clients. Planning and the execution of those plans will often be an iterative process, typified by key decision points and course corrections. In this way, the journey becomes as important as the destination.

[1] *Journey Into Retirement: A Qualitative Look at Transition Experiences*, LIMRA Secure Retirement Institute, 2019.

[2] *The Retirement Income Reference Book, Fourth Edition*, LIMRA Secure Retirement Institute, 2018.