Looking for Happiness in Retirement

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Agenda

• What is retirement?
• Evaluating financial retirement preparedness
• Beyond finances
• Happiness
• Factors influencing happiness
• Applications to actuarial work
The traditional view of retirement

Accumulation

Employed in main job full time

Long term horizon

+ Uncertain financial needs

= Perfect Actuarial Application

Deccumulation

Receiving personal pension

Receiving state pension

2014 Convention knowing more 22-23 October, Cape Town
Using the Actuarial Telescope

• Actuarial toolkit allows for

  • Financial projections
  • Estimating consumption
  • Estimating income
  • Evaluating adequacy
Actual Replacement Ratios?

Target Replacement Ratios
2014 Convention
knowing more
- 22 - 23 October, Cape Town

Target Replacement Ratios
No allowance for later changes in consumption

Income RR Approach

Pre-retirement consumption

Adjust for tax

Adjust for savings

Estimated Consumption after

Consumption before

Adjust for expenses:
- Work expenses
+ Leisure expenses

Plus other savings?

Several Funds?

Income from a single pension fund?

Adjust for tax

Based on income before retirement

Based on income before retirement

Income after

Income before
PV = \frac{\text{Estimated Consumption after}}{\text{Consumption before}}

Pre-retirement consumption

Adjust for tax

Adjust for savings

Adjust for expenses:
- Work expenses
+ Leisure expenses

Based on income before retirement

Plus other savings?

Several Funds?

PV of Income from a single pension fund

Adjust for tax

Home Equity?

Wealth RR Approach
Home equity

What is your expectation with respect to your home in old age?

1. I expect to remain in my current home indefinitely
2. I expect to sell my home in very old age, when I require care facilities
3. I expect to downsize at some point in retirement
4. I expect to downsize early on at the start of my retirement
5. I have already downsized
6. Other
For those who are planning to sell:

I am expecting to sell my home MAINLY because:

1. I will be forced to, to realise additional funds
2. I will not require/want to upkeep a large property
3. I am likely to move to a different area/community
4. It really is a combination of these factors
5. Other
PV
(Estimated Consumption after)
Consumption before

Pre-retirement consumption
Adjust for tax
Adjust for savings

Adjust for expenses:
- Work expenses
+ Leisure expenses

Plus other savings?
Several Funds?

PV of Income from a single pension fund

Adjust for tax

Income before

Wealth

Based on income before retirement

Consumption before retirement unrealistically high

Income before retirement unrealistically high

Insurance policies?
Home Equity?
Family support
Successful retirement?

Target Wealth Replacement Ratio

=  

Actual Wealth Replacement Ratio

Adjusted for all wealth including home equity.

Adjusted for all changes in consumption

How do we get there?
How do we get there?

• Retirement preparation confined to pre-retirement?
  • Saving, preserving, reducing expenses, investing correctly

• Post-retirement is passive – little that can be done?
But do we actually get there?

1. Groyer and Holtzhausen, 2006
2. Butler and van Zyl, 2012
5. Alexander Forbes Barometer, 2014
What else do you have?

- Community involvement
- Work
- Attitude to retirement
- Ability to adjust
- Control over retirement
- Health
- Family and Friends
- Leisure time

57%³
55-66%⁴
37.5%⁵
An alternative view:

- Retirement: complex, dynamic, multifaceted
How can we evaluate this?

- If retirement “success” depends on financial AND non-financial factors, financial RRs are inadequate measures.
- RRs also give little guidance on what to do when there is just not “enough” money.
- Need a measure which encompasses how all of the retiree’s resources affect the retirement experience.
- Suggest using “happiness” as a measure.
What is happiness?

- Quality of life measure

- Advantages of happiness:
  - Holistic (accounts for all circumstances)
  - Final rather than intermediate goal

- Types of happiness
  - Cognitive vs affective

- Can it be reliably measured?
Measuring happiness

• Objective approaches
  • Difficult to measure objectively
  • E.g. Coding of voice and facial expressions, Reports from family/friends

• Subjective measurements
  • A question or a series of questions
  • Known as “Subjective well-being” (SWB)
Happiness question

Using a scale of 1 to 10 where 1 means “very dissatisfied” and 10 means “very satisfied”, how do you feel about your life as a whole right now?
What factors contribute to happiness?

- Activities
- Demographic factors
- Environmental factors
- Social Relationships
- Health
- Financial factors
- Control over retirement
- Attitudes
Financial Factors

- Does money make us happy?
  - Wealth/income/relative income/perceived relative income
- Generally, yes, but effect less powerful at higher incomes (Frey & Stutzer, 2002)
- Easterlin Paradox:
  - Wealthier people happier than poor people
  - But as one person gets wealthier, happiness does not increase
  - Hedonic adaptation
- But what about in retirement?
Effect of financial factors on happiness in retirement

- Higher income = more happiness, but effect marginal (Bender 2004)
- Relative income important – compared to other retirees (Bender 2012)
- Substitution effect: leisure for income (Bonsang & Klein 2012)
  - Posit 3 domains of satisfaction: finances, health and leisure
- Security important:
  - DB pensions more satisfying (Bender 2012)
  - Retirement planning has a positive effect (besides providing more income) – adjusts expectations (Wang & Schulz 2009 for review)
What factors contribute to happiness?

- Social Relationships
- Health
- Financial factors
- Control over retirement
- Attitudes
- Environmental factors
- Demographic factors
- Activities
Health

- Powerful relationship between health and happiness (see Dolan et al 2008 for review)
- Particularly in retirement, poor health associated with great reduction in satisfaction (Bender 2004)
- Maintaining good health key to retirement satisfaction
  - Also allows participation in other positive activities (work, community, leisure)
  - Allows more control over retirement (work)
What factors contribute to happiness?

- Activities
- Demographic factors
- Environmental factors
- Social Relationships
- Health
- Financial factors
- Control over retirement
- Attitudes
Audience Question

• What is your attitude to work after retirement?

1. Do not intend to work in retirement
2. May have to work in retirement for financial reasons
3. May want to work in retirement to keep engaged
4. A combination of 2 and 3
5. Other
Activities

• Work increases happiness for most (even after controlling for income)
  • More retirees are choosing to work, not just for financial reasons
  • Retirees who work have control over their finances
• Volunteering increases happiness
• Common thread: fulfilment, engagement, feeling valuable
• Leisure activities also enhance happiness for different reasons (satisfaction with leisure vs. satisfaction with money)
What factors contribute to happiness?

- Social Relationships
- Health
- Financial factors
- Control over retirement
- Attitudes
- Environmental factors
- Demographic factors
- Activities
Social relationships

• Marriage/partnership:
  • large positive effect
  • For retirement, best when both retired
  • Looking after ill partner: negative

• Family and friends:
  • social support networks very positive
  • Especially in retirement

• Harvard Grant Study (75 year panel study of Harvard Grant Recipients):
  "Love Is Really All that Matters"
What factors contribute to happiness?

- Social Relationships
- Health
- Financial factors
- Control over retirement
- Attitudes
- Demographic factors
- Environmental factors
- Activities
Retirement attitude

- Do you see retirement as:
  1. A transition to old age/rest
  2. A new beginning
  3. A continuation of life, i.e. no major change
  4. A disruption of work
  5. Other
Attitudes & Control

- Attitudes strongly linked to happiness (Dolan et al 2008)
- General attitudes: optimism, self-esteem, self efficacy (Leung & Earl 2012)
- Retirement attitudes (Gee 1999): Retirement as
  - Transition to old age
  - New beginning
  - Continuity (non-event)
  - Disruption to work
- Retirement anxiety: unease about what retirement will be like (Taylor-Carter et al, 1997)
- Importance of control: “voluntaryness of retirement” (Bender 2004, 2012; Calvo et al 2009, Barrett&Kecmanovic, 2013)
Summary of happiness findings

• Having some money is important, but the effect of money is marginal at higher incomes

• Being healthy, having strong relationships and feeling valuable are very important

• Managing attitudes and expectations is important:
  • Retirement planning
  • Feeling secure
  • Feeling in control
How can we use this in our work?
Retirement funds

- Flexibility and control
  - Retirement timing
  - Reduced hours
- Retirement planning
  - Managing expectations
  - Particularly with respect to replacement ratios
- Promoting health and wellness – employees and pensioners
  - Post-retirement medical aid?
- Security of benefits – cash balance, adjustable DC, Defined Ambition as alternatives to pure DC
Retirement planning

- Holistic retirement planning
  - Financial, social, leisure and work activities
  - Manage expectations/position choices
  - Account for different stages of retirement
    - Early – part time work, active leisure
    - Later – less active
    - Last stage – infirm, requiring care

All resources

Health, work, leisure
Insurance products

- Unlike medical aids, annuity providers are not incentivised to improve policyholder health

- Can we change this incentive?
  - Combination of pension with long term care product?
Insurance products

• Variable income products
  • Acknowledge different stages of retirement

• Synergies between products
  • Pension fund, life insurance, home equity are all financial assets
  • Design products to optimise the use of these over lifetime
  • Cut down on overinsurance, undersaving
  • Utilise home equity easily
  • Link couples’ products together?
Conclusion

• Financial assets contribute to overall retirement experience but are not everything
• Health, relationships, deriving value from activities, and a sense of control, preparedness and security also contribute
• Happiness is a way to measure the overall success of retirement
• By considering overall, instead of only financial well-being, we could design better retirement solutions