



An analysis of well-being in retirement: The role of pensions, health, and ‘voluntariness’ of retirement

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ABSTRACT

This paper examines a wide range of determinants of retiree well-being of retirees. Using data from the 2000 Health and Retirement Study, increases in economic factors such as income lead to higher well-being, although relative income has a larger effect than absolute income. The strongest predictors are the voluntariness of entering retirement, pension characteristics, and health. Retirees “forced” to retire or have defined contribution pensions or bad health have significantly lower well-being. The results suggest a more nuanced approach in addressing retiree well-being than just a focus on the economic well-being of retirees.

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1. Introduction

Financial or economic well-being in retirement has been of increasing interest for economic researchers. The policy implications are large. As the baby boom generation nears retirement, understanding the determinants of economic well-being enables policy makers to evaluate and possibly reform present retirement institutions, such as public and private pension programs, as well as potentially generate new institutions to meet the demands of the soon to be rapidly increasing retirement population. Of particular interest in this field has been the focus on retirement income adequacy, that is, the financial resources retirees need to be above some minimal level.

While this area of research is important, focusing on just the *economic* well-being of individuals may miss other factors that influence general well-being. Indeed, there has been relatively little research on other aspects of well-being for retirees in the economics literature. This is a bit surprising given the recent increased interest by labor economists in examining the well-being of workers (i.e. overall job satisfaction or satisfaction with some aspect of the job such as pay and promotion prospects) and of people in general (Frey and Stutzer, 2002a).

This paper, therefore, extends the literature in two ways. First, while there have been several studies of subjective retiree well-being, they tend to be narrowly focused on just a few correlates. This paper using a large group of covariates from the 2000 Health and Retirement Study, in order to compare relative effects of socio-demographic, economic, and noneconomic determinants of well-being. This larger set of determinants come from key findings in the job satisfaction and economics of well-being literatures. In general, the findings are that economic factors such as income and wealth positively impact well-being, although the effects are larger for increases in relative income compared to absolute income. Noneconomic factors such as whether retirees chose to retire or not, the health of retirees, and the riskiness of employer pensions, however, have much larger marginal effects on well-being in general, suggesting that the focus by many on the economic well-being of retirees are only looking at part of the story.

A second innovation of this paper is that for the first time in the literature examines whether behavior of retirees changes over time in response to lower levels of well-being. Results here suggest that retirees with low levels of well-being do change their behavior through changing their place of residence or going back to work or changing marital status.

The paper is organized as follows. The next section reviews the economics literature on well-being measures, both in the job and in life. The third section explains the data and methodology used in the research, while the fourth section reviews the results. A final section summarizes the study and offers areas of future research.

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Table 1
Percentage distribution of satisfaction with retirement responses.

Sample	Satisfaction with retirement		
	Not at all satisfying	Moderately satisfying	Very satisfying
Overall (%)	7.5	32.4	60.1
Female	7.4	33.5	59.1
Male	7.6	32.3	61.2
White	6.1	30.6	63.3
Nonwhite	12.5	38.9	48.7
Age under 62 (excl)	14.2	33.2	52.7
Age 62–64	9.0	32.6	58.5
Age 65–69	7.5	32.0	60.5
Age 70–74	6.4	30.3	63.3
Age 75+	5.1	33.6	61.3

2. Literature review

In economics, measures of retiree well-being have primarily focused on two economic measures of well-being. The most common metric is retirement income as summarized in Andrews (1993) and Radner (1998). The other common metric is examining wealth, generally financial assets, net housing value, and the present discounted value of Social Security retirement and pension benefits (see Levine et al., 2000). Regardless of the measure, the research on economic well-being often examines which factors lead to higher levels of retirement income and/or wealth, assuming that this leads to increased overall well-being. Other research, such as Haveman et al. (2003), examines the changes in these measures of economic well-being for retirees as they age.

However, it is important to realize that economic well-being is only one dimension of overall well-being. Recent surveys by Frey and Stutzer (2002a,b) summarize the mounting research on overall well-being (as measured by happiness or life satisfaction) and their (Frey and Stutzer, 2002b) research shows the relative importance of nonfinancial and financial variables on the formation of subjective well-being.¹

While there have been many economics studies on the determinants of life satisfaction (see, for example, the citations in Frey and Stutzer, 2002a), only a couple have focused directly on the well-being of retirees. Several papers focus primarily on retirement's influence on life satisfaction or happiness.² First, Wottiez and Theeuwes (1998) examine Dutch data of 43–63 year olds and find that those who retired early have higher life satisfaction than workers, although normal aged retirees tend to have equal or lower life satisfaction compared to workers. In a second paper, Charles (2004) finds that retirement among men leads to lower life satisfaction. However, after controlling for endogeneity, he finds that retirement and life satisfaction are positively correlated. Neither study focuses directly on retiree well-being and its determinants, but rather they compare the life satisfaction of retired to

¹ Many economists criticize such research as not being tied to economic behavior. However, Blanchflower and Oswald (1999) report that social psychologists have often found that job satisfaction measures correlate with many objective outcomes. For example, Morisha (1986) and Clark et al. (1998) find that workers with lower self-reported job satisfaction have higher absenteeism and higher quit rates. Further, Iaffaldano and Muchinsky (1985) and Ostroff (1992) report that higher job satisfaction within a firm is positively correlated with its performance. As shown below, lower retirement satisfaction also leads to changes in behavior.

² Note that this paper and the empirical estimations below make a distinction between 'happiness' and satisfaction. The 'overall well-being' referred to in this paper examines a specific type of well-being, namely satisfaction with retirement (in the same way that job satisfaction relates only the overall well-being gained from work). Obviously many things not related to retirement per se will affect global well-being (often proxied by happiness). Here the distinction is made to focus on retirement specifically regardless of the other factors that might affect the global well-being of the elderly.

nonretired individuals. Finally, Calvo et al. (2009) examine the impact of a phased retirement on retiree happiness.³

There have been several papers in the literature that directly examine retirement satisfaction. Shultz et al. (1998) examine the retirement satisfaction of early retirees from the first wave of the Health and Retirement Study (HRS) to examine the relative importance of "push" (e.g. poor health) and "pull" (e.g. leisure) factors on retirement satisfaction. For a small sample of 827 early retirees, they find that push factors are more important for those who are involuntarily retired, pull factors tend to be more important for voluntarily retired. Key in their analysis is the focus on the voluntariness of retirement, although their study is limited in scope to early retirees.

Elder and Rudolph (1999) also use the first wave of the HRS to examine the role of financial planning and expectations on the retirement satisfaction of nearly 1800 retirees. Although they examine a limited number of covariates, they do find a strong positive correlation between retirement planning and eventual retirement satisfaction and a negative correlation between the involuntariness of retirement on retirement satisfaction. Noone et al. (2009) also investigate the impact of financial planning on retirement satisfaction, but use several waves of the HRS to show that even years into retirement, planning for retirement increases retirement satisfaction.

On the other hand, Panis (2004) examines the 2000 wave of the HRS to examine the role of annuities and wealth on both retirement satisfaction and measures of depression. Again, the list of determinants is limited, but Panis finds that annuities from pensions increase retirement satisfaction and reduce the number of depression symptoms, while Social Security reliance (as measured by how much Social Security contributes to total income) has no statistically significant effect on either well-being measure. Panis, however, does not control for other sources of income or wealth or for the voluntariness of retirement.

Finally, Butrica and Schaner (2005) find that what retirees do with their time is an important determinant of well-being in retirement. Using data from the 2002 wave of the HRS, they find that retirees who work or volunteer have higher levels of subjective well-being than those who are not similarly engaged. They also find, however, that there are limits to this engagement since well-being declines after 1000 annual hours in work or volunteering activities.

In sum, the literature on the subjective well-being of retirees has tended to focus on particular determinants of well-being whether it be the choice of retirement (e.g. Shultz et al., 1998 or Calvo et al., 2009), financial planning (e.g. Elder and Rudolph, 1999 or Noone et al., 2009), income (e.g. Panis, 2004), or time use (e.g. Butrica and Schaner, 2005). However the goal of this paper is to put these together with a host of other variables suggested in the job satisfaction literature to determine the relative importance of various economic and noneconomic factors that determine subjective well-being in retirement.

3. Data and methodology

3.1. Health and Retirement Study

The data for this study come from the year 2000 Health and Retirement Study (HRS), which started in 1992 as a nationally representative sample of the US 51–61 years old population. After deleting observations which did not report being fully retired (the criterion for answering questions about retirement well-being) and

³ A related literature is the effect of unemployment on life satisfaction. See, for example, Clark and Oswald (1994), Theodossiou (1998), Winkelmann and Winkelmann (1998), and Cole et al. (2009) for details.

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