



## The influence of subjective life expectancy on retirement transition and planning: A longitudinal study

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### ABSTRACT

This study examines the construct of subjective life expectancy (SLE), or the estimation of one's probable age of death. Drawing on the tenets of socioemotional selectivity theory (Carstensen, Isaacowitz, & Charles, 1999), we propose that SLE provides individuals with their own unique mental model of remaining time that is likely to affect their retirement planning and decision making. Longitudinal data from 1908 participants showed that SLE measured at Time 1 predicted mature-aged workers' intended retirement age and the extent that they were engaged in retirement preparation 12 months later at Time 2. Furthermore, a shorter SLE at Time 1 increased the odds of actual retirement by Time 2 after controlling for a set of known predictors of retirement. In contrast, a longer SLE at Time 1 increased the odds that a Time 1 retiree had returned to paid work by Time 2. The discussion highlights ways in which SLE can inform financial and vocational counselling for late career decision-makers.

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Demographic, economic and social changes in most Western societies have resulted in very different patterns of retirement transition from those evident decades ago. The retirement process is increasingly staged, often including a period of bridge employment or post-retirement work, making its prediction important for individuals, organisations, and governments (Jones & McIntosh, 2010). Several factors account for these changes: 1) the ageing population and increased longevity in part associated with improved health (Warren & Kelloway, 2010); 2) the removal of mandatory retirement ages; 3) a potential skills shortage as baby boomers move into retirement (OECD, 2006); and 4) a shift in responsibility for retirement finance and planning from society to the individual (Bidewell, Griffin, & Hesketh, 2006).

Although there is a large body of research identifying predictors of retirement and post-retirement work, surprisingly little attention has been given to the influence of subjective life expectancy (SLE), or the age to which one thinks one will live. As time spent in retirement is a function of retirement age and age of death, SLE is a critical variable in estimating how long this is likely to be. Hesketh, Griffin, and Loh (2011) therefore argued that SLE provides individuals with their own unique timeframe to guide how they apportion work and transitioning to full retirement, as well as informing considerations of how to plan the distribution of their finances and activities over their remaining lifetime. SLE might be thought of as a personal mental model about the span of remaining life. This individual mental model of longevity potentially provides an important source of information over and above population actuarial estimates for those making retirement transition decisions.

The current study presents longitudinal data from 1908 participants to show the effect of SLE on retirement decisions (including on post retirement employment status) and retirement planning one year later. It extends the cross-sectional findings from the only two other studies (Hesketh & Griffin, 2007; van Solinge & Henkens, 2010) that have examined SLE in the context of late career workers and retirees. We note that the van Solinge and Henkens (2010) study also included a longitudinal component,

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and found no effect of SLE on retirement decisions. However, their measure of SLE was only the probability of reaching old age (not a specific age) and this, combined with a younger sample, reduced the likelihood of significant findings.

## 1. Theoretical background

### 1.1. SLE and its relationship to other time related constructs

In developing a mental model of how long they might live it is likely that individuals take into account their own age-related actuarial probabilities of life expectancy, but also consider other autobiographical details including factors such as their parents' longevity and their own lifestyles and health. Interestingly, although a relatively new concept for research, there is evidence that self-estimates of life expectancy are reasonably accurate (Fry & Debats, 2006; Kotter-Gruhn, Gruhn, & Smith, 2010; Siegel, Bradley, & Kasl, 2003). Furthermore, an early study by Hamermesh (1985) illustrated that while self-estimates of life expectancy were similar to actuarial estimates, the distribution of self-estimates had greater variance, which suggests that personal factors are having an influence on people's understanding of their own life expectancy.

Estimating longevity is important both for individuals in planning the timing of their transition to retirement and for society where estimates of life expectancy inform pension and aged care policy and practice. Indeed, actuarial life expectancy estimates and survival probabilities have become core tools for economists and financial planners who use them as a guide for determining how people should best allocate and invest their retirement savings (Hurd & McGarry, 2002). However, actuarial estimates are based on population mortality rates so do not capture the range of individual differences likely to affect one's life expectancy. We suggest that people draw on their autobiographical analysis of these differences to formulate a self-estimated or subjective life expectancy (SLE) and argue that this should also be considered in the context of understanding mature-aged workers' transition to retirement.

As a measure of future time, SLE fits within the nomological net of the concepts of future time perspective (FTP) and time remaining, as described in socioemotional selectivity theory, a life-span theory of motivation (Carstensen, 2006; Carstensen, Funk, & Charles, 2003; Carstensen, Isaacowitz, & Charles, 1999). Carstensen and colleagues suggest that as people age their perspective of remaining lifetime changes from being expansive to limited. Awareness of time remaining influences one's choice of goals, so that motivation changes as time horizons contract. When time is perceived to be limited more value is placed on emotional goals and meaningful social interactions and less value on knowledge-relevant goals. Goals focused on acquiring knowledge and information are thought to prepare one for future possibilities (Charles & Carstensen, 2009).

Rather than quantifying remaining time, empirical tests of socioemotional selectivity theory have used chronological age and terminal illness as proxies for limited remaining time or used a scale measuring the construct "future time perspective", which contains items such as "My future seems infinite to me" (Carstensen & Lang, 1996). We suggest that SLE offers a clearer measure of time remaining that may better distinguish among those of similar chronological age. This is particularly important when comparing a more age-homogeneous group such as late-career workers or retirees. At their stage of life, time remaining may start to become more important than time since birth (Carstensen, 2006).

Future time perspective has been operationalised in what appears to be a multidimensional construct, which includes the perception of time remaining as well as one's focus on opportunities and limitations in the future (Cate & John, 2007). Those with a strong focus on opportunities are positive about the future, believing there are many possibilities to pursue in the remainder of their lives, while those with a strong focus on limitations concentrate on perceived impediments and restrictions in the future (Cate & John, 2007). Recent empirical tests of the theory within the context of work have shown that occupational FTP predicts job performance (Zacher, Heusner, Schmitz, Zwierzanska, & Frese, 2010), moderates the relationship between work/family conflict and organisational commitment (Treadway, Duke, Perrewe, Breland, & Goodman, 2011), and moderates the relations between contract fulfilment and employee obligations of older workers (Bal, Jansen, et al., 2010).

### 1.2. SLE and retirement transition, post retirement work and retirement planning

In a cross-sectional study Hesketh and Griffin (2007) provided initial evidence that SLE was a stronger predictor of intended retirement age than current income, anticipated retirement income, or self-reported health. Those who expected to live longer also planned to retire later. A more recent study by van Solinge and Henkens (2010) supported this finding, showing that SLE was a significant predictor of intended retirement age, even after controlling for important demographic factors such as gender, age, income, education, health, marital status, and family longevity.

The tenets of socioemotional selectivity theory can be used to explain why SLE is likely to be relevant to retirement decision-making. Firstly, low SLE is hypothesised to result in a focus on limited opportunities, low interest in knowledge goals, and a high preference for socialising with close social contacts. Someone with this focus is more likely to want to retire from paid work at an earlier age to allow time to engage in meaningful non-work activities such as spending more time with family and friends. In contrast, those who expect to live longer may feel that they have time to engage in both work and non-work activities. They probably see death as a far off event, relative to others of the same age, and therefore are not yet at the stage to consider changing life priorities and retirement. Secondly, because those who have high SLE are likely to be contemplating a long retirement period with lots of opportunities for activity, they may also need to be engaged in paid work for longer in order to adequately fund their retirement (von Bonsdorff, Shultz, Leskinen, & Tansky, 2009). Thirdly, Lockenhoff and Carstensen (2007) contend that the change in goal focus from information gathering to emotional well-being has implications for decision-making, especially when decisions

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