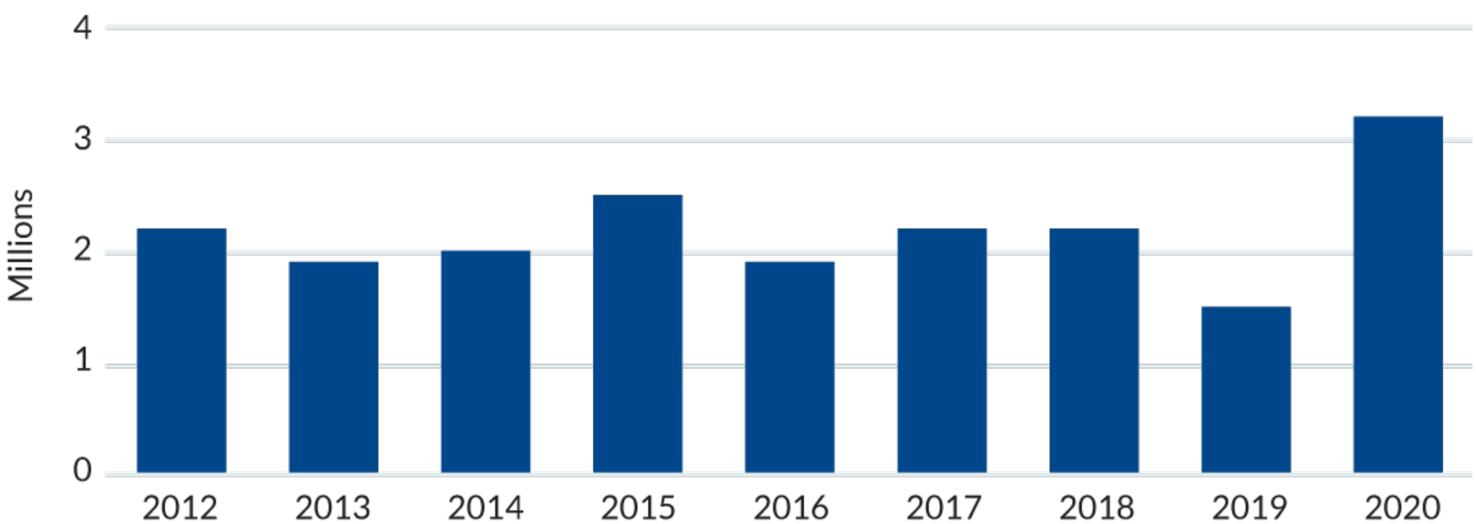
Mesirow

Post pandemic retirement decisions

Unanticipated events often inspire thought and reflection that can lead to lifestyle and behavioral changes. For example, the loss of property or income can inspire a person to purchase insurance to protect themselves from future risk. The global pandemic is unlike any event in most of our lifetimes. It may be the only modern-day crisis that presents a threat to our health, wealth and sense of security. This leads to the question, “How has the pandemic changed when people decide to retire?”

Retirement has become more complex in recent decades given our increased longevity and growing uncertainty regarding benefits such as retirement plans and healthcare subsidies. Prior to the pandemic, such complexity caused many people considering retirement to take more cautious positions, such as working longer to protect their financial nest eggs. However, since the start of the pandemic there has been a surge in the number of baby boomers announcing their intent to exit the workforce before age 67. Baby boomers are defined as individuals born between 1946 and 1964. In 2020 the number of baby boomers retiring exceeded 3 million versus an average of 2 million since 2011 when the oldest boomer turned age 65.[1]

ANNUAL INCREASE IN THE RETIRED US BABY BOOMER POPULATION



Source: Pew Research Center analysis of monthly Current Population Survey files

According to a study by Pew Research Center in the third quarter of 2020, 28.6 million baby boomers out of a total national cohort of 71.6 million reported they were retired. This represented a 3.2 million increase in retirees over the prior year period.[2] Also, in March 2021 the Federal Reserve reported a decline the average expected likelihood of working beyond age 67 to 32.9% from 34.9% in November 2020. The 32.9% average was the lowest measure since the statistic began being tracked in 2014. The desire not to work beyond age 67 was most pronounced among women.[3]

The decline was also noticeable because it can result in the loss of benefits. Individuals who begin collecting social security benefits at their full retirement age, around 67, forgo the opportunity for larger payments that are allowed if they postpone benefits up to age 70. Social security income is indexed for inflation. Increases to a larger payment can help offset potential inflation in the future.

Extending a career has been shown to contribute positively to a person’s well-being if their work provides fulfillment and a sense of purpose. In addition to income, work can provide a set of tasks that provide psychological success when completed, socialization with friends and colleagues, and a meaningful way to structure time. Thirty-nine percent of retirees age 65 or older retired once before but returned to work.4

So why are more people exiting work since the pandemic?

During the onset of the pandemic, many individuals were forced into retirement from their employers due to company layoffs and early retirement packages. However, as the pandemic has progressed and for those who can voluntarily retire, the most recent data suggests the decision could be driven by two factors: personal reflection and asset growth.5

Personal reflection

The pandemic has been a source of personal loss for many as they, or their friends and loved ones, have been permanently impacted by the virus. Such loss has caused many to reflect and reset their values. Individuals have chosen to exit the workforce and “smell the roses” while they can. This period of social distancing has caused many to put greater value on personal relationships and life experiences, and therefore exit work. The opportunity to spend more time with family and friends, explore, develop a hobby or just relax is now being valued over the rewards that come from a 40-hour work week. Early exit from work can be preferred if a job is a source of negative emotion and stress. During the pandemic the appeal of work has changed as the risk of travel and stress from burnout have become more noticeable.

Asset growth

Although this has been a time of increased volatility and financial uncertainty for several households it has provided an economic opportunity for others. Assets for Americans ages 55 to 69 rose by $4.2 trillion in 2020.4 For this group:

- Corporate equities and mutual fund shares increased by $2.2 trillion
- Real estate assets increased by $750 billion
- Private business valuations grew by $250 billion

Many baby boomers recall the loss of value from the Great Recession of 2008 and are choosing to "cash in" and recognize profits now to enhance their retirement lifestyle. Business owners are one of the fastest growing groups opting to retire. In addition to being incentivized by increased valuation, many business owners are concerned about what may be needed to compete in a changing environment, especially if they are not willing to advance with technology.4

Although earlier retirement may now be attainable and/or desirable for more workers, it is still expensive. Retirees typically retain 80 percent of their expenses in retirement. Retirement spending can occur in three phases. Initially, expenses can be higher as people engage in more travel and leisure to celebrate their milestone. Next, expenses normalize for a longer time as retirees become settled in their new lifestyle. In the final stage, expenses can increase more due to long-term care and medical expenses.6

Retiring is no longer an event, but a process that can be long or short. It requires careful consideration and planning to achieve the best outcomes in terms of personal well-being and financial security. If your values are changing and you are considering retiring earlier, you should consider the following:

- What will be my retirement lifestyle?
- How will I achieve fulfillment and psychological success?
- What is my social network, and will it provide meaningful interactions for my personal development?
- How long can my assets support me financially in retirement?
- What will be the cost of my healthcare?
- Where do I want to live?
- How do I sell my business?

Including trusted advisors such as your financial advisor, accountant, attorney or other retirees may be beneficial in helping you understand if retiring earlier may be right for you. Taking a holistic view and establishing a plan and timeline is often the best way to protect your assets and enhance overall well-being.

Sources:

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