

# Understanding retirement expectations

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## Motivation

For many Americans, a dominant form of saving involves contributing to employer-sponsored retirement savings accounts. In 2022, 48% of private industry workers participated in a defined contribution plan, while only 11% participated in a defined benefit plan (Zook, 2023). An individual's expected retirement date is an important input into the operation of defined contribution plans. The retirement date determines the remaining years of contributions and the expected time an individual will spend in retirement. Moreover, the retirement date may also influence the optimal mix of assets in these retirement accounts. Due to the importance of the retirement date on asset mix, target date funds are an increasingly important part of individual savings portfolios, with over half of 401(k) participants having target date funds as part of their portfolio and around 24% of total assets in these funds (Shoven & Walton, 2021).

Despite the importance of the retirement date for financial planning, individuals face substantial uncertainty about when they will eventually retire. This uncertainty arises because retirement is a complex decision that depends on many factors, including the individual's work environment, changes in their health and ability to work, family care needs, receipt of bequests, and working decisions of family members. These factors

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that influence retirement timing are often difficult to predict in advance. Indeed, Caliendo et al. (2023) calculate the difference between expected and actual retirement dates for a sample of older workers and find that this difference has a standard deviation of around five years. This finding means nearly one-third of workers experience retirement either five years earlier or later than originally expected.

Given the uncertainty about retirement timing that individuals face as they approach retirement, it is useful to understand how and why individuals' expectations about their retirement date evolve as they age. In our paper (Gorry and Leganza, 2023), we advance our understanding of these issues. We first document how average expectations evolve for workers aged 50 to 60 and explore how patterns of expectations depend on worker characteristics like gender, marital status, health and income. We then study how expectations change when individuals experience common life events that may influence their retirement plans.

Overall, our findings reveal meaningful variations in retirement expectations at older ages. We show that older workers, on average, expect to work longer than younger workers and that expectations vary across different groups. We also show that some life events, specifically health shocks, cause substantial declines in how likely individuals think they are to work past key retirement ages. Our findings may be useful for policymakers and practitioners interested in assessing retirement income security and accounting for retirement timing risk when designing retirement savings schemes. Understanding how retirement expectations change is a crucial first step toward understanding how individuals may need to change their savings and how retirement savings schemes could help workers adjust savings as needed.

## Trends in retirement expectations

We use data from the Health and Retirement Study (HRS), a survey of older Americans compiled by Bugliari et al. (2023), to study how retirement expectations evolve as workers age. The HRS is useful for our analysis because it contains information on workers' retirement expectations and their perceived probabilities of working past 62, 65 and 70. Moreover, it contains detailed information on demographics, health, family characteristics and employment. It also tracks participants over time. The dataset thus allows us to document how individual expectations evolve with age and study how changes in health, family characteristics and employment influence retirement expectations.

We focus on four primary outcomes for older workers: their expected retirement age and their probability of working

past age 62, 65 and 70. The variable about expected retirement age is useful to gather precise information about when an individual expects to retire. The first two probability-based measures indicate the perceived likelihood of an individual needing to retire before reaching the ages at which they are eligible to claim Social Security and Medicare benefits, respectively. Hence, retirement before those ages could generate additional financial needs for the individual until they reach benefit-claiming age.

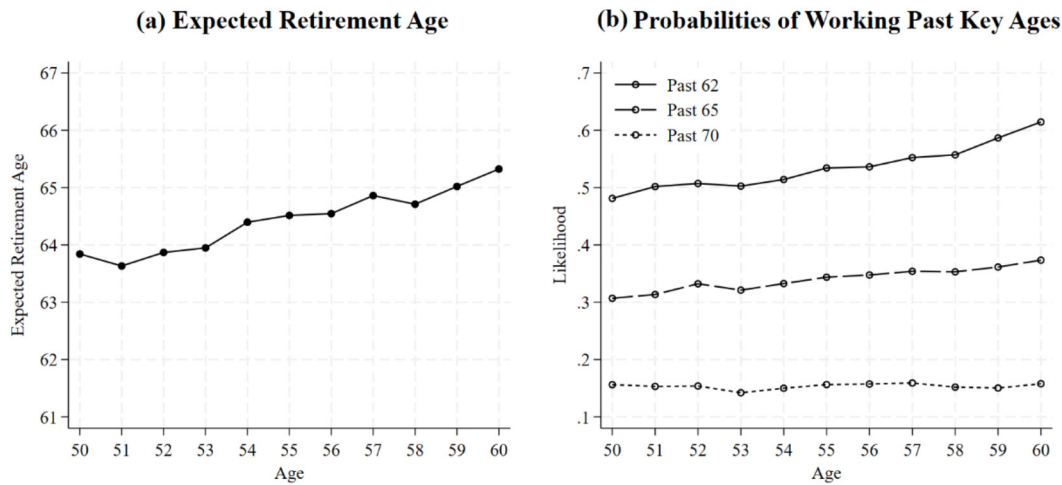
We first explore how these outcome variables evolve with worker age. Figure 1 plots the average of each outcome variable against worker age. Panel (a) plots the expected retirement age, showing that 50-year-olds expect to work to nearly age 64 on average. The average expected retirement age increases by over a year to over 65 years for 60-year-olds. Panel (b) plots the probability of working past 62, 65 and 70. There are also increasing trends with age for working past 62 and 65 while the trend for age 70 is relatively flat. Given the low average probability of working past 70, we do not discuss the results for this outcome in the rest of this report.<sup>1</sup>

These trends in retirement expectations with age could be due to either sample selection (changes in the composition of the sample with age) or changes in expectations as the same individual workers age. We find that both factors are important in generating the increasing trend. Sample selection occurs as individuals drop out of the sample when they are no longer working—so workers who retire early are missing from the data, leaving us with a selected group of workers who expect to work longer. We can account for this selection by looking at a sample of consistently working individuals. When we study these consistent workers, we still find an upward trend, though not as steep as shown in Figure 1. Hence, the remaining changes in expectations could be explained by workers updating their beliefs toward working longer as they age.

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<sup>1</sup> In our associated paper, we look more at the probability of working past age 70, but here we focus on the earlier ages because they are related to important policies and a larger fraction of workers expect to continue working beyond the earlier ages. See Gorry and Leganza (2023) for details.

FIGURE 1. TRENDS IN RETIREMENT EXPECTATIONS



We next document how these trends differ across groups of workers. We find that females expect to retire earlier than males at age 50, but they increase their expectations of working longer by more as they age. Similarly, we find larger increases in expected retirement ages and the probability of working past 62 and 65 with age for individuals with good health, high income and high wealth compared to those with worse health, lower incomes and lower wealth, respectively. These differences are consistent with individuals updating their expectations toward later retirement if they have the continued capacity to work.

## The effects of life events on retirement expectations

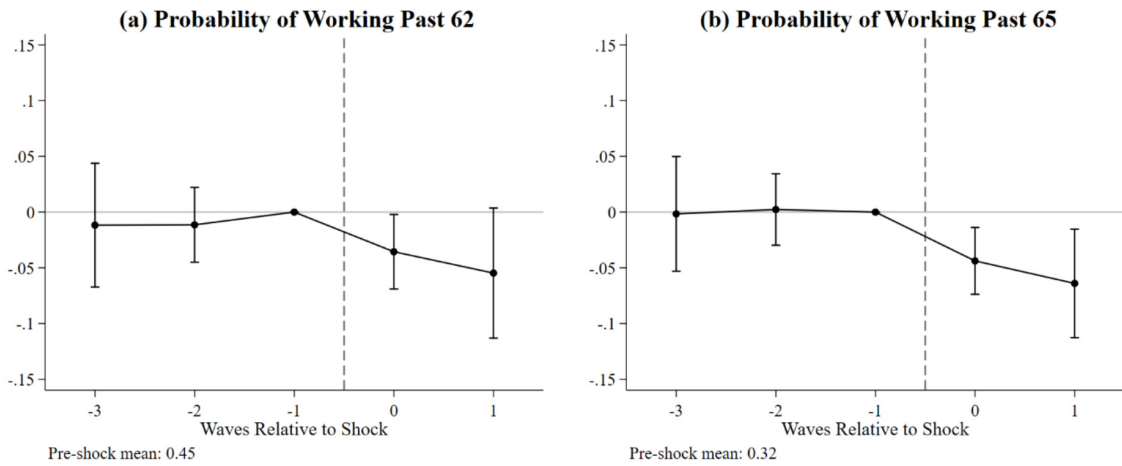
We also use the HRS data to study how frequently experienced life events, or “shocks,” affect retirement expectations of individuals aged 50 to 60. To avoid sample selection issues, we focus on how events change an individual’s subjective probability of working past ages 62 and 65 since the survey questions that define these outcomes are asked of all individuals (not just workers) in later waves of the HRS. We use an “event study” approach to tease out causality. Specifically, we compare individuals

who all experience the same life event, but at different times, to estimate the effects of experiencing shocks on changes in retirement expectations.

We find that health shocks play a key role in shaping expectations and in inducing early retirements. Figure 2 presents graphs that illustrate the causal effect of a change in health status on retirement expectations. A change in health status occurs if an individual changes their self-reported health status from excellent, very good, or good to fair or poor. The plots compare the probability of working past ages 62 or 65 in the survey wave prior to the reported change in health status (-1) with the two periods before (-2 and -3) and the two periods after (0 and 1).

The plots show that individuals significantly reduce their expectations of working past 62 and working past 65 after a decline in health status. The key estimates in our associated paper that correspond to these figures indicate that health declines cause a 4.0 percentage point decline in the probability of working past age 62 and a 4.5 percentage point decline in the probability of working past age 65. These declines are sizable, reflecting 8.9% and 14.1% reductions in the probability of working relative to the baseline levels. Declines in subjective health cause individuals to expect to retire earlier than they otherwise would have.

**FIGURE 2. EFFECTS OF CHANGES IN HEALTH STATUS ON RETIREMENT EXPECTATIONS**



Studying subjective health measures gives us an idea of how health declines in general influence expectations, but it is also important to understand the effects of specific types of health shocks common to older workers. We therefore conduct the same type of analysis for nine different objective health shocks: hospitalizations, heart attacks, strokes, cancer diagnoses, lung disease diagnoses, arthritis diagnoses, diabetes diagnoses, high blood pressure diagnoses and diagnoses of psychiatric problems. The results are not the same for the different types of shocks that we study. On the one hand, there is strong evidence that some shocks affect expectations; new diagnoses of cancer, lung disease, and arthritis generate clear declines in the probability that individuals work later. Some evidence indicates strokes lead to decreases in expectations, although the evidence is not as strong for this shock. On the other hand, there is little to no statistical evidence that the other objective conditions cause changes in the likelihood of working later. The fact that the results differ across shocks could reflect inherent differences in conditions and the corresponding consequences for work capacity. For instance, it could be that some conditions are more debilitating and lead to sustained decreases in work capacity, while others are more manageable.

Beyond studying health events, we also explore the effect of economic events (unemployment and earnings increases) and family events (the birth of a grandchild and divorce or separation) on retirement expectations. We find some weaker statistical evidence that large increases in earnings reduce the likelihood of working past ages 62 and 65. This reduction in the likelihood of working later is consistent with the idea that increases in pay can make earlier retirement more affordable. However, higher wages also

make working longer more attractive. While people could respond differently to changes in earnings, our estimate reflects the average effect across people. Overall, there is not much evidence that these other types of events influence expectations, especially when compared to the evidence on health shocks.

## Discussion

Our results show how retirement expectations evolve at older ages and provide a broad view of how different events during working life impact retirement expectations. In our analysis of trends, we find that while expectations do not vary substantially with age, older workers tend to expect to work longer than younger workers, and expectations can vary across groups. In our analysis of life events, we establish a quantitatively important causal link between health and the timing of future retirement. In contrast, we find less evidence that economic and family events induce changes in individuals' expectations.

Studying retirement expectations shows one possible way individuals can manage uncertain events over their life. While Bronshtein et al. (2019) highlight the power of working longer for retirement readiness, delaying retirement is just one of many options available. Individuals may also modify their financial plans in response to shocks by saving more while working, reducing consumption during retirement, or possibly changing the amount that they work while working. Our analysis, highlighting that health shocks are most related to changes in retirement expectations, implies that working longer may not always be an available option for individuals to prepare for retirement.

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Our study therefore has implications for policymakers concerned with Americans' retirement income security. Our results for the probability-based outcome variables are particularly relevant for government policy because age 62 corresponds to Social Security's early eligibility age, and age 65 corresponds to Medicare's eligibility age. Our results indicate that adverse health shocks like declines in overall health status can cause individuals to be more likely to retire before they reach these crucial ages when they would unlock public benefits that may help them cope with risks and other shocks.

Our findings also have implications for practitioners concerned with retirement plan design and the administration of retirement savings schemes, perhaps especially of target-date funds that have investment options anchored to expected retirement dates. In a broad sense, our findings highlight the importance of retirement timing uncertainty. Thus, individuals may value flexibility in retirement savings schemes and the ability to update their elected expected retirement age that dictates how their assets are invested. In a more direct sense, our specific results on health shocks point to a key set of life events that may require changes to savings. Retirement savings schemes may be able to help workers adjust after such events.

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