

University of Nebraska - Lincoln

DigitalCommons@University of Nebraska - Lincoln

Historical Materials from University of
Nebraska-Lincoln Extension

Extension

1994

G94-1227 Preparation for Retirement: Planning When Still Employed

George P. Rowe

University of Nebraska - Lincoln

Follow this and additional works at: <https://digitalcommons.unl.edu/extensionhist>



Part of the [Agriculture Commons](#), and the [Curriculum and Instruction Commons](#)

Rowe, George P., "G94-1227 Preparation for Retirement: Planning When Still Employed" (1994). *Historical Materials from University of Nebraska-Lincoln Extension*. 957.

<https://digitalcommons.unl.edu/extensionhist/957>

This Article is brought to you for free and open access by the Extension at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Historical Materials from University of Nebraska-Lincoln Extension by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.



Preparation for Retirement: Planning When Still Employed

Retirement preparation includes planning for financial security, health maintenance, a social network, and meaningful activities.

George P. Rowe, Ph.D., Associate Professor, Family and Consumer Sciences

Retirement is defined as partial or complete withdrawal from career work accompanied by a change in the sources and amount of income. Most persons choose to retire today between the ages of 62 and 66 since eligibility for partial Social Security benefits begins at age 62 with full benefits available by age 65. Full benefits will begin later for Americans born after 1959 when they reach age 67 in 2027. For most occupations, there is no mandatory age at which people have to quit working. Self-employed persons, for example, may continue working for as long as they desire.

About 90 percent of all working adults live long enough to experience retirement. The estimated life expectancy in the U.S. for persons who turned age 65 in 1992 is for women to live to be 84 and for men to live until 80. With a third or more of one's life span devoted to retirement activities, it is important that adequate preparation be made for this last period of life.

Reasons for Retirement

There are many reasons people choose to retire. A prime consideration is retirement income. Will financial resources in the retirement years meet expected financial needs? A person may choose early retirement if private investments and pensions will provide adequate lifelong financial well-being. Some lower paid workers are more likely to feel the need to work past age 65 due to inadequate savings and low pension benefits. About one quarter of retirees quit work due to poor health or disability. They decide to retire while they are still able to travel and enjoy leisure. Others retire early because of job termination due to business downsizing and early buy-outs.

Many others retire because they are interested in various activities, such as spending more time with family and pursuing individual hobbies. Some retire simply because they think they are "supposed to" at ages 62 or 65. Finally some people retire to assume greater family caretaking responsibilities for frail parents, a spouse, an adult child, or other relatives. For most, the decision to retire is voluntary.

Once workers leave career jobs, it can be difficult to re-enter the labor force in former jobs or a comparable replacement unless they have professional skills in high demand. While many less skilled workers would prefer to find at least part-time employment, few jobs are available even at minimum wage for older workers. Some retirees in retrospect wish they would have worked longer to secure a better economic base.

The Importance of Retirement Planning

Since many people may spend much of their lifetime after employment, good planning before retirement is related significantly to life satisfaction in retirement. While you can't anticipate the length of your life or what unforeseen uncontrollable circumstances may transpire, preparing for the retirement years has long lasting benefits for individuals and their families. The retirement decision for dual earner married couples can be more complicated because employee pension plans may differ and spouses may vary in age.

Four interrelated factors are essential to insure enjoy-able retirement: financial planning, health maintenance, interpersonal family and friendship networks, and preparing for meaningful retirement activities.

Financial Planning

In 1990, the median income for Americans 65 and older was about \$25,000 for family households and \$10,000 for non-family households. All households of persons aged 65 and over averaged only 60 percent as much cash income before taxes as American households in general.

Very few Americans will receive as much annual income in retirement as they earned during their working careers. While it may be useful to plan for a retirement income goal of 70 percent or higher of pre-retirement income, forces beyond one's control may reduce this expectation. Inflation decreases the value of fixed pensions. Unexpected medical expenses not covered by Medicare or private insurance may also deplete resources. Furthermore, natural disasters like fires, floods, or windstorms may greatly diminish net worth. Economic resourcefulness is an important quality to develop to minimize later financial hardships.

Sources of Retirement Income

Older Americans age 65 and older in 1990 received incomes proportionately from the following sources: Social Security and SSI benefits, 38 percent; private savings and investment income, 25 percent; public and private pensions, 17 percent; earnings from gainful employment, 16 percent; and all other sources, 4 percent. Not included above are indirect benefits from food stamps, most Medicare Part A hospital costs, Medicaid payments to the poor, and senior discounts for various goods and services.

Nearly 95 percent of Americans over 61 years of age are eligible to receive some Social Security income although a few choose to delay getting benefits until they reach 70. The payments are calculated on a formula based on income received when they were wage earners. Spouses of former wage earners are entitled to survivor benefits and if their entitlement from earnings is less than half of a partner's pension, Social Security will make up the difference. The average monthly Social Security check is only about \$800 so it may be insufficient to meet all living expenses.

Some employees become vested in private or public pension funds which are withheld from monthly employee wages matched with similar amounts from employers. Most companies with pension benefits offer defined contribution plans of variable amounts, based on market forces and how well the funds are managed. With a down-sizing of businesses in the early 1990s, many private pension systems are unable to pay retirees their earned pensions. Furthermore, many workers are forced to retire early with low private pensions and are too young to draw Social Security benefits.

Working Americans need to put aside additional money each month to build a retirement "nest egg." The earlier people begin savings and investment programs, the greater will be their financial security in old age. The ideal plan is to build an Individual Retirement Account (IRA) or other investments to insure adequate returns for 20 to 30 years. The longer you live, the fewer are the resources that remain. Some people live long enough to deplete most personal savings and greatly reduce their net worth.

Adults in their working years should take advantage of reading financial planning publications offered by the American Association of Retired Persons (AARP) and other sources. Many young married couples find it helpful to consult with financial planners for investment opportunities. It takes self discipline to forego spending for the present to set aside money each month to build economic security in retirement when wages cease.

Maintaining a Healthy Lifestyle

The best assurance of low health care costs and a high life satisfaction in the retirement years is to prevent diseases and accidents in the first place. In Nebraska, 60 percent of the 1992 deaths by persons sixty and older were caused by heart disease and cancer. If these two diseases could be diagnosed and treated early, many more Nebraskans could enjoy more fully their senior years. Many chronic diseases like arthritis are not fatal and can be managed with appropriate precautions and medications.

The best approach to deter infirmity is to engage in a healthy lifestyle while still able-bodied. There are many possible ways to prevent or postpone frailty. Following are five important components under the control of each person:

1. The cornerstone of any prevention program is eating a balanced nutritious diet in the proper amounts. Maintaining moderate weight can ward off disease and help people feel well. Older adults should use the Food Guide Pyramid to determine the following daily servings from these food groups: bread and cereal, 6; vegetables, 3; fruits, 2; milk products, 3; and meat group, 2. Fats, oils, salt, and sweets should be used sparingly.
2. Just as important as eating properly is avoiding the use of hazardous substances such as alcohol and nicotine as well as minimizing amounts of caffeine. Not only are these substances dangerous to our health but they have an addictive quality which makes it hard for people to stop using. Many older people who smoked or drank excessively in their younger years have learned the health benefits of abstinence. Decaffeinated coffee has become a favorite beverage at senior events.
3. Regular exercise is an important ingredient for good mental and physical health. It improves stamina, circulation, digestion, heart functioning, breathing and relieves the tension of stress. The most appropriate exercise schedule for adults is to select a variety of activities that require a minimum of 20 minutes, three to four days a week. The best forms of exercise that can be practiced early in life and carried over into the later years are brisk walking, jogging, bicycling, swimming, skating, dancing, golf, and racquet sports. Anyone who has not been exercising regularly, should consult a doctor before beginning. It's never too late to start.
4. Regular physical exams are necessary to identify organs of the body at high risk of becoming diseased. If certain diseases have been present in a person's family, these especially should be monitored. Routine checks are needed for high blood pressure, high cholesterol levels, diabetes, glaucoma, osteoporosis, and many forms of cancer which increase in risk with age. Healthy middle-aged adults should have a complete physical exam at least every three years, but some at-risk persons should be screened for particular conditions more frequently.
5. The prevention of serious avoidable accidents is a strong component of a healthy life style. Accidents in 1992 were the leading cause of death among Nebraskans under the age of 45 (excluding infants under the age of one). Motor vehicle accidents accounted for 2/3 of these deaths. Far more people are injured than killed by accidents, many of whom are disabled for life. Using simple safety precautions can prevent many accidents. Excessive speed and alcohol consumption are implicated in most accidents involving young male drivers. For older drivers, right of way violations are the leading cause of accidents. Older adults are also prone to falling inside their homes. Minimizing risk taking behavior is advantageous for good health at all ages.

Adequate Dental and Health Care Insurance

The best assurance of having health care protection before the age of 65 is having adequate medical and dental insurance. It is particularly beneficial to be insured against medical catastrophes for principal wage earners and their dependents. Insurance costs are usually shared between employers and their employees, but many Americans are not insured and often their medical costs end up being paid from public funds. Many early retirees are not covered by former employer health plans and must wait until they are 65 to receive Medicare benefits.

Medical insurance plans provide the insured with choices concerning various deductibles and co-payment provisions. Health maintenance providers encourage frequent check-ups to prevent illness and disability. Dental health today stresses prevention of gum diseases and using corrective procedures in early life to prevent tooth decay and the loss of teeth.

About 3 percent of adults held long-term care private insurance policies in 1991. It is much cheaper to purchase this kind of insurance before retirement. It may range in cost from \$250 annually for a 55 year old to \$1650 annually if it were not purchased until age 75. Good policies include inflation protection, waiver of premiums when collecting benefits and guarantees against cancellation. Poor older adults are provided nursing home care without cost to them under Medicaid.

During 1994 Congress is debating many versions of health care reform. There is support for universal coverage but many people fear that the costs will be too high. All Americans are encouraged to study this issue and then to decide which choice to make if or when a new law is enacted.

The Importance of Interpersonal Networks

The third essential to successful retirement living is the cultivation of a network of friends, groups, and family members. Few individuals choose to be isolated from the rest of society even though 44 percent of women and 19 percent of men aged 65 or older lived alone or with non-relatives in 1992. More than 75 percent of older men but only 41 percent of older women were married in 1992. Almost half of women aged 65 or older were widows. Many of the older married couples are in second or subsequent marriages due to divorce or widowhood.

Even though nearly half of today's marriages end in divorce, the half that succeed often last for 50 or more years. Recent research on long term marriages reveal these keys to success:

- The husband and wife believe that being a couple makes them happier.
- They allow each other to have outside friendships and activities without jealousy.
- They share power in decision making.
- They take pride in each other's activities.
- They accept there will be differences and negotiate the conflicts.
- They view personal change as good rather than a threat to the relationship.
- They do not assume that life has to be rosy all the time.
- They do not seek to become exactly alike.

Married couples tend to become mutual caregivers as disability and infirmity increase with advanced age. They are increasingly motivated to work harder to preserve independent living and avoid institutionalization. Involuntary separation is difficult when one must receive nursing home care while the other is home alone.

Recent research highlights the importance of strengthening family and social ties for individuals who live alone. They are urged to:

- Reach out by helping others; this helps the person's self-esteem.

- Not to expect family members to satisfy all social needs.
- Visit or call someone who is alone, especially on holidays.
- Make needs known to others. They might help.
- Take pleasure in plants and pets.
- Nurture relationships. Actively make new friends of different ages.

One of later life's greatest satisfactions is the experience of enduring relationships with adult children and grandchildren. There is a sense of pride and accomplishment in watching one's offspring develop and mature into adulthood. Parents for the first twenty or so years invest tremendously in the stake of their children. The degree to which parents gradually "let go" of each child defines parent-adult child relationships for the future. If parents try to control their children's families or if they cut themselves completely out of their lives, each generation may be deprived of family ties necessary for good psychological health. Each generation and its offspring needs to communicate and negotiate on an ongoing basis from the standpoint of mutual trust and equality.

Enduring friendships are a vital part of social functioning. In many ways they are more significant than family connections because friends are chosen. They can share all emotions, sorrow as well as happiness. Their essence is that of a peer or equal. A good strategy is to make new friends of different ages and belong to social groups and organizations that persist into the retirement years.

Planning for Retirement Activities

Most middle-aged adults have jobs, spend time at home, are involved in community activities and do things with their family and friends. The only role lost at retirement is gainful employment. Giving up job roles may lower one's self-esteem if a work ethic was central to one's identity. Many retirees substitute volunteer roles for their former job role. This justifies leisure activities, protects them against allegations that they are no longer able to perform and gives definition to their retirement roles. In retirement, work is defined in terms of effort toward goals of one's own choosing rather than within the context of the American economic system.

A "busy" ethic in retirement implies the enactment of non-job related productive activities which carry over from earlier life. Housework, household and yard maintenance, volunteer work or community service, family roles, recreation and social activities tend to continue at the same frequency or actually increase. Grandparent roles may actually expand as time becomes available for travel and visiting. Time is also available for new activities as horizons can expand. Area Agencies on Aging (AAA) can be contacted for information about programs for seniors.

Knowledge and skills learned before retirement have carry-over value in late life. Although new knowledge is constantly being generated, formal education and on-the-job training affects competency in various activities during retirement. The pleasures of many life-long sports tend to continue. Lack of skills and low literacy can seriously limit leisure activities.

One task for which it is especially difficult to prepare is learning to cope with major losses in life that increase with age. The productive work role is usually the first loss experienced in retirement but adjustment tends to be short-lived. Loss of a spouse usually has the most profound impact, and is difficult to anticipate unless a long terminal illness precedes death. Probably the best preparation for widowhood is to develop a sense of autonomy and mastery that strengthens self-reliance.

Conclusions

The two greatest concerns for the future of retirement living were financial security and health care coverage and services according to regional forums conducted in 1994 by the Gerontological Society of America. Another major problem identified was loneliness and the need for social support to preserve independence and emotional well-being.

Any pre-retirement planning program must include preparation for financial security, provision for health services, providing for a social support network and planning meaningful activities. These concerns relate to each other. By investing in a secure financial future, individuals have the means to purchase satisfactory housing, transportation and health care insurance. Retirement living today exemplifies the continuity of lifestyle carried forward from middle adulthood. A healthy lifestyle can last a lifetime. Friendships and satisfactory family relationships fostered in early life take on increasing significance in retirement. Many contingencies cannot be totally anticipated but a planning strategy which stresses the development of economic and social skills will prove to be a sound investment to yield late life enjoyment.

References

- The American Association of Retired Persons (1994). *A profile of older Americans*: 1993.
- Atchley, Robert (1994). *Social forces and aging* (7th ed). Belmont, CA: Wadsworth Publishing Co.
- Kohn, Harriet and Martin, H. Darlene (1992). *Family nutrition guide*. NebGuide G92-1113-A. Nebraska Extension Service.
- Measuring the economic status of the elderly (1993). *Family Economics Review*, 6, 19-21.
- Nebraska Department of Health (1994). *1992 Vital Statistics Report*.
- Rottmann, Leon (1994, May). Secrets of a happy couple and living alone. *The Good Life Report*, No. 217, 1-2, Nebraska Extension Service.
- Rowe, George P. & Hendricks, Pat (1991). Essentials of successful aging, HE Form 381, Nebraska Extension Service.
- Rowe, George P. and Daberkow, Wes (1993). The influence of family and personal factors in retirement timing. Presentation to National Council on Family Relations annual meeting.
- Schwenk, Nancy (1993). Long-term care trends. *Family Economics Review*, 6, 9-18.
- Szinovacz, M. Ekerdt, D., and Vinick, B. (Eds.) (1992). *Families and retirement*, Newbury Park, CA: Sage.
- The White House conference on aging: Setting the agenda. (1994, May). *Gerontology News*. The Gerontological Society of America.

File G1227 under: HOME MANAGEMENT

B-1u, Budgeting

Issued September 1994; 7,500 printed.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Elbert C. Dickey, Director of Cooperative Extension, University of Nebraska, Institute of Agriculture and Natural Resources.

University of Nebraska Cooperative Extension educational programs abide with the non-discrimination policies of the University of Nebraska-Lincoln and the United States Department of Agriculture.