

Modern retirement monthly

Planning for successful retirement and well-being | 6 September 2017

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- While on average retirees are very happy, for those who don't have clear reasons for retirement and don't plan in advance, the transition into retirement can be very stressful.
- Only 21% of retirees are concerned about outliving their money or having to downgrade their lifestyle, 73% are worried about getting sick, and 47% are worried about not having anyone take care of them.
- Anticipating your retirement can be an enjoyable process, and planning and prioritizing can be an engaging exercise for you and your family.

Why should retirees plan for their retirement?



Studies show a strong positive correlation between retirement planning and eventual retirement satisfaction.



Introduction

As the baby-boom generation approaches retirement, significant resources have been dedicated toward understanding the factors that contribute to the overall well-being of retirees. While income and wealth contribute to the overall happiness and life satisfaction of an individual in retirement, there is more to the story.

As highlighted in the latest edition of UBS Investor Watch, for retirement to be successful, even financially well-off and healthy individuals must overcome cognitive and emotional challenges to be psychologically prepared for the new chapter in their lives (see Fig. 1). Investors must have clear reasons for their decision to retire and must plan for the transition well in advance.

Overall, academic research indicates that retirees are on average very happy, and they are less stressed than younger individuals. In this report, we outline the considerations and actions that can help ensure a smooth transition and a successful retirement.

Fig. 1: Percent of wealthy pre-retirees who agree with each statement



Source: UBS Investor Watch, Q2 2017

Why retirement can be stressful

Transitioning can be rough

Choosing when to retire may be one of the most important and challenging decisions we will ever make. Retirees face both opportunities and challenges. Many individuals see retirement as an opportunity to do everything that they never had time to do while working. However, there are many tough decisions to make. Future retirees must decide whether to transition slowly or take the full leap; whether to downsize, move to a vacation home, or live closer to the family. Many families will have to deal with health issues, and develop a plan for their children's futures. In addition, many retirees also have to confront losing purpose and social connections that working provides.

But it gets better

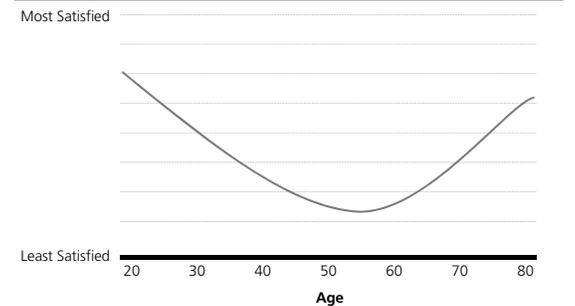
Measuring well-being and life satisfaction, rather than the level of wealth, is not a new concept. In Bhutan, the Gross National Happiness (GNH) Index was introduced in 1972, which placed life satisfaction as the focal point for public policy decision-making. More recently, other countries have created their own version of the index; the US has its own, The Gallup Well-Being Index. For policymakers, retirees' life satisfaction and concerns can help with decisions regarding medical resources and the design of retirement programs, which can have a significant impact on individuals' decision to retire.¹

The good news is that research on well-being suggests that aging is not indicative of a decline into misery. In fact, multiple studies confirm that on average, the relationship between age and life satisfaction maps to a U-shaped curve² even if accounting for factors such as gender, marriage, having kids in the house or being unemployed. Individuals who are in their 20s start out happy; around 50 years of age we tend to hit our mid-life crises; and after the age of 65 we finally find our happiness (see Fig. 2). In addition, for an average person, the levels of stress, anger, and worry decline as we age.³ These results are corroborated by literature that explores the relationship between age and depression. Individuals in mid-life are approximately twice as likely to be taking antidepressants as individuals with the same characteristics who are under the age of 25 or over the age of 65.⁴

While nobody knows the true reasons for the U-shaped curve, explanations have been suggested. On the emotional level, as we age we become better at dealing with issues, coping with stress, and focusing more on the positives from the past. We also learn to accept who we are, including our strengths and weaknesses, rather than try to chase the big dream and achieve the impossible. We appreciate our feelings more rather than our accomplishments and start enjoying life as it is. We tend to build solid meaningful relationships rather than try to cultivate new friendships. These new ways of experiencing life make us feel more secure, more in control, and happier.

Another explanation is purely economic. At a later stage in life, we finally enjoy all the effort it took for us to get there: Building a career, establishing financial security, and raising a family.

Fig. 2: Life satisfaction increases after retirement
Illustration of predicted life satisfaction by age



Source: UBS

Taking the stress out of retirement

Set goals

Lifestyle changes, anticipated emotions, and uncertainty about what to do in retirement contribute to the element of stress and anxiety that make the transition hard. In fact, according to the "life events scale" frequently used by psychologists, retirement features on the inventory of the most stressful events that an individual can experience – a list that also includes imprisonment and divorce (see Fig. 3).⁵

Fig. 3: The Holmes-Rahe Stress Inventory Table

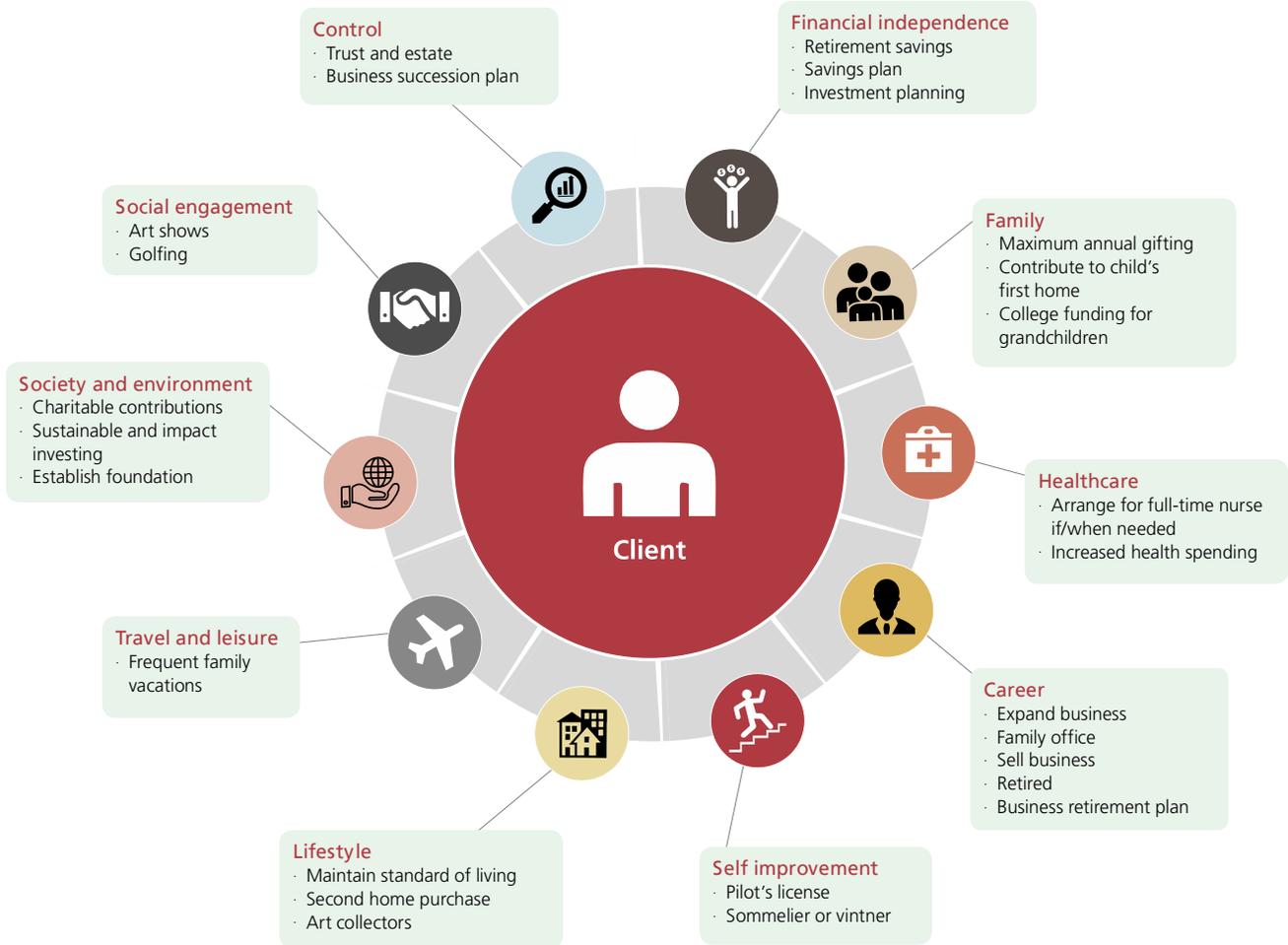
	Life Event	Mean Value
1	Death of spouse	100
2	Divorce	73
3	Marital Separation from mate	65
4	Detention in jail or other institution	63
5	Death of a close family member	63
6	Major personal injury or illness	53
7	Marriage	50
8	Being fired at work	47
9	Marital reconciliation with mate	45
10	Retirement from work	45

Source: Holmes TH, Rahe RH (1967). "The Social Readjustment Rating Scale". J Psychosom Res. 11 (2): 213-8

When planning for retirement, the first step is to figure out what you're trying to achieve in the next 20 to 30 years. Studies show a strong positive correlation between retirement planning and eventual retirement satisfaction.⁶

Because it's easy to overlook important goals that don't easily come to mind, it can be helpful to refer to a list of goal categories to make sure all of the family's objectives are addressed (see Fig. 4). Engage the whole family in discussion to ensure that your family's values are preserved. During this process, families should decide what is most important to them. It's better to prioritize now than to be disappointed later. Taking time to prepare for retirement will allow pre-retirees to address many difficult questions, reduce stress, and take control of their future. When going into retirement, making too many changes at once is not recommended.

Fig. 4: Ten categories that cover a spectrum of individual goals



Source: UBS, [Your Wealth & Life 2017 Retirement Guide](#)

Similar to vacation satisfaction, much of the psychological benefit from retirement can come from the anticipation and from exploring possibilities. But the planning process can also be stressful. Because we tend to naturally focus on a certain future outcome – usually positive – it can leave us underprepared for the unexpected. When planning, it is crucial to broaden our perspective of the future by imagining several versions of your future – positive and negative. This step allows individuals to uncover risks that might otherwise be overlooked.

Although it is easy to look back and recognize how our goals and values have evolved over time, it is much more difficult to correctly predict how they will change in the next 20 years. Similarly, despite the U-shaped life satisfaction curve, pre-retirees may wrongly forecast the misery to come as they age. Learning from others who have experienced a certain stage in life, such as retirement, is a much better forecasting tool. It can therefore be important to speak with other retirees to learn from their experiences. For more on this see [Your Wealth & Life Goals Discovery](#).

Once goals are established, then assets can be aligned with them using the [3L investment framework](#). For example, Investor Watch survey results indicate that the majority of wealthy retirees (84%) choose to continue to grow their Legacy assets, which are excess assets that the household intends to use for bequest or charitable purposes. Given that retirees have enough assets to last for a lifetime of living expenses, their Legacy assets should be invested in an aggressive portfolio. This is not only due to the different purpose of these assets, but also due to tax and estate planning factors.

“Giving while living” is an alternative strategy that many retirees should consider. Seeing the fruits of your family’s philanthropic goals grow – such as setting up charities or scholarships, or making a donation to a hospital – can be very rewarding. This framework would be part of the Longevity investment strategy.

Prepare to live longer

Life expectancy has improved dramatically over the past half century. Current 65-year-olds are expected to live to the age of 87 for males and 89 for females. And, perhaps counter intuitively, life expectancy advances for those who live into old age. Recent Investor Watch findings indicate that while wealthy retirees are confident about their financial stability, only 21% are concerned about outliving their money or having to downgrade their lifestyle, 73% are worried about getting sick, and 47% are worried about not having anyone take care of them.

How do retirees continue to invest?



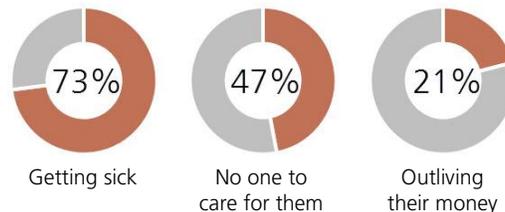
Legacy Asset growth



Giving while living

While confident in their financial stability, these concerns add up...

Percentage of retirees concerned about:



These concerns shouldn't be taken lightly. Our analysis indicates that a 65-year-old couple will need to save between USD 300,000 and USD 600,000 for future healthcare expenses, and women will continue to pay more for total lifetime healthcare than men due to their longer life expectancy and rising healthcare inflation (See our publication, *Modern Retirement Monthly: Healthcare in Retirement*, published on 7 August for more) . Despite the longevity risk, healthcare concerns, and rising costs, only 12% of Americans account for healthcare costs when planning for retirement.⁷

Long-term care services (LTC), which includes assistance with personal and medical care, is another component that shouldn't be overlooked during the planning process, specifically for investors who do not wish to burden their loved ones. We are naturally inclined to assume that it's very unlikely that we will need LTC; behavioral science shows that humans do a poor job at evaluating probabilities especially for events that we have never experienced. The reality is very different. Our analysis shows that about 85% of couples will use some type of LTC service before they pass away (see Fig. 5). The median 65-year-old couple in 2016 will incur a total of USD 184,000 in LTC expenses during their lifetime, and roughly 25% of couples will spend more than USD 500,000 on LTC during their lifetime (see Fig. 6).

In addition to making healthcare and long-term care part of the planning process, individuals with medical conditions such as type 2 diabetes or high blood pressure can take control of their healthcare expenditures and longevity by following recommended health treatments. A recent study by HealthView Services found that, by changing behavior and making lifestyle changes, a 50-year-old with type 2 diabetes can significantly lower their medical expenses and increase their life expectancy.⁸

Take your time to plan for the transition into retirement. Make sure all your goals and concerns are part of the financial plan. Anticipating your retirement can be an enjoyable process, and planning and prioritizing can be an engaging exercise for you and your family. With a robust plan, you can be confident and excited about your golden years.

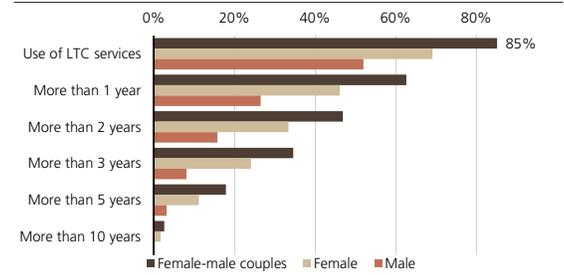
Good retirement plans account for **healthcare**

12%

Percentage of Americas who account for healthcare costs when planning for retirement

Fig. 5: About 85% of female-male couples will use some type of long-term care

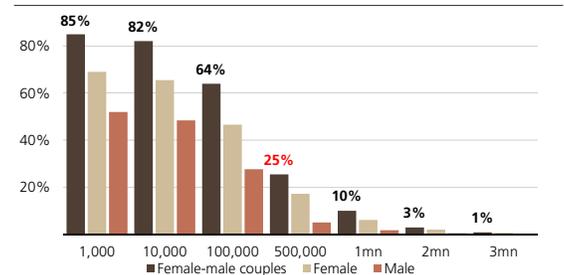
Probability of any long-term care use for more than a specified time period



Source: UBS, as of 1 September 2016

Fig. 6: 25% of couples will spend more than USD 500,000 on long-term care

Probability LTC spending will exceed each specified amount



Source: UBS, as of 1 September 2016

Sources

¹<https://www.ssa.gov/policy/docs/ssb/v71n4/v71n4p15.html>.

²Stone, A., Schwartz, J., Broderick, J., Deaton, A. (2010) A snapshot of the age distribution of psychological well-being in the United States, PNAS June 1, 2010, 107, 22, 9985-9990. Blanchflower D. G., Oswald A. J. (2017) Do Modern Humans Suffer a Psychological Low in Midlife? Two Approaches (With and Without Controls) in Seven Data Sets, working paper. Pew Research Center, October, 2014, "People in Emerging Markets Catch Up to Advanced Economies in Life Satisfaction".

³Stone, A., Schwartz, J., Broderick, J., Deaton, A. (2010) A snapshot of the age distribution of psychological well-being in the United States, PNAS June 1, 2010, 107, 22, 9985-9990.

⁴Blanchflower D. G., Oswald A. J. (2016) Antidepressants and age: A new form of evidence for U shaped well-being through life, Journal of Economic Behavior & Organization, 127, 46–58.

⁵Holmes TH, Rahe RH (1967). "The Social Readjustment Rating Scale". J Psychosom Res. 11 (2): 213–8.

⁶Elder, Harold W. and Patricia M. Rudolph. 1999. "Does Retirement Planning Affect the Level of Retirement Satisfaction?" Financial Services Review 8: 117-27.

⁷"Health State and the Savings Required for a Sustainable Retirement," Journal of Retirement, 2017.

⁸HealthView Services 2017 Retirement Health Care Costs Data Report <http://www.hvsfinancial.com/2017-retirement-health-care-costs-data-report/>.

Appendix

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