

Modern retirement monthly

Retirement: destination or transition?

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- Retirement is a drastic lifestyle change and therefore often represents a stressful transition.
- Retirees are reshaping the retirement lifestyle to ease the financial and psychological burden of the transition by staying active, maintaining social connections, and even working.
- When determining how you'll transition to retirement, start by identifying your concerns. Make adjustments to your lifestyle prior to retirement and incorporate your objectives into your financial plan to make sure it's structured to meet your goals.

A UBS Investor Watch survey found that the emotional anxiety regarding retirement has kept some wealthy pre-retirees from making the leap.¹ But retirement shouldn't be viewed as a swift leap to the next destination—it's a transition. And the way we choose to make that transition can help ease some of the emotional ramifications associated with the adjustment, so be sure to think deliberately and plan diligently.

As you approach retirement, it's important to have a plan in place that incorporates not just what you want to do in retirement, but also how you plan to achieve it. By incorporating the transition into the financial plan, investors can make sure assets are aligned with their objectives, which helps to increase confidence when making financial decisions.

Change is scary...

After decades living a structured professional life, retirees are tasked with having to adapt to a potentially less-structured environment. Not only are they entering uncharted waters, but they are also leaving behind a life they've grown accustomed to. This transition has the potential to bring on significant psychological ramifications.²

For many, a lifelong career can become part of their identity. Some retirees may experience a void and find themselves asking, "Who am I now that I am retired?" Many wealthy pre-retirees worry about leaving colleagues behind, filling their free time and finding purpose. Not having a schedule in retirement can be more worrisome for them than not having a paycheck.

...but it doesn't have to be!

Just because retirement may mean the end of a lifelong profession, it doesn't mean that the valued aspects of a work-life structure can't be carried into retirement. It's important to identify the aspects of pre-retirement life that you valued, and find new ways to incorporate them into retirement. Doing so brings familiarity to the next chapter, making the transition seem far less drastic.

In the years leading up to retirement, it can be helpful to integrate those valued aspects in life outside of work so that they'll still be present in retirement. If you fear losing the social connections that work provided, form new friendships outside of work in social clubs or through hobbies in your community. If you're concerned about not having a schedule, volunteering can be a great way to add structure to your routine but on your own terms.

Be sure to identify your transition concerns and develop a plan that takes action well in advance. Continuity theory states that adults typically preserve the same behaviors and activities in retirement as they did leading up to retirement. So by developing a new lifestyle prior to retirement outside of work, continuity theory suggests that retirees will have an easier time adjusting to life without employment.

A different approach to retirement

The definition of retirement—the action of leaving employment and ceasing work—alludes to the idea that after a retirement date, employment ends entirely. But an increasing number of Americans are reshaping the retirement picture by incorporating some form of work into their transition.³ Working post-retirement is often associated with being ill-prepared financially, but 80% of those who are working in retirement are actually doing so because they want to, not because they have to.⁴

So, why would someone want to work in retirement? Post-retirement work, also known as bridge employment, can be used to ease the transition both financially and emotionally. In terms of its financial impact, it's hard to deny that working longer helps an investor's financial security more than working less. Any additional work means more earnings that can be saved and less retirement spending to fund. In fact, working longer is relatively powerful in comparison to saving more—working three to six months longer has the same impact on the retirement standard of living as saving an additional 1 percentage point of working income for 30 years!⁵ That doesn't mean investors don't need to be saving as much in their working years—you still need to plan for the unexpected, like if you were no longer able to work due to health issues—but it's insightful information for those who will soon be determining their retirement date.

In terms of the psychological benefits, bridge employment can give you the best of both worlds if you're able to find the right type of work. Post-retirement work can provide a sense of purpose, identity, and satisfaction without the aggravations of a typical 9-to-5 job. When you're financially independent in retirement, you have the freedom to do what you like, regardless of the pay. This gives retirees an opportunity to explore passions and activities that they didn't have the time to pursue earlier in life.

While post-retirement work has been shown to ease the psychological burden of a retirement transition,⁶ that's only true if it's the right work. Only those who are truly engaged in their post-retirement activities reap the psychological benefits. And finding truly meaningful engagement may take longer than expected.

Pre-retirees planning for their transition should start by going through a deliberate process to understand the challenges they may face and the options they have to overcome those challenges. The traditional idea of retirement, consisting of unlimited rounds of golf and days filled with anything but work, is no longer the norm. A satisfactory retirement looks different for everyone, and finding what's right for you will take time and deliberate thinking—the adjustment to retirement is a process, not something that can be accomplished overnight.

Discuss your aspirations with your financial advisor

From a cash flow standpoint, retirement can seem terrifying. After decades relying on working income to fund ongoing expenses, retirees rely primarily on their savings. Leading up to retirement, investors should structure their portfolios to provide the appropriate amount of cash flow for their spending needs in the absence of a paycheck.

The Liquidity strategy in our 3L framework⁷ is structured to match cash flow to the next three to five years of spending, and it can help ease the financial transition when entering retirement. However, your goals, objectives, and financial situation will drive the allocation and resources across time. Be sure to incorporate your transition strategy into your financial plan to make sure you have enough assets readily available for what you want to do going into, and throughout, retirement.

Liquidity. Longevity. Legacy. disclaimer:

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End notes:

1. Retiring old clichés, UBS Investor Watch 3Q 2017.
2. John W. Osborne. "Psychological Effects of the Transition to Retirement." Canadian Journal of Counselling and Psychotherapy. Vol. 46 No. 1. 2012.
3. "Working in Retirement: A 21st Century Phenomenon." Families and Work Institute. 2008 National Study of the Changing Workforce. July 2010.
4. "Work in Retirement: Myths and Motivations." Merrill Lynch Retirement Study, Age Wave. 2014.
5. "The Power of Working Longer." Stanford Institute for Economic Policy Research. January 2018.
6. John W. Osborne. "Psychological Effects of the Transition to Retirement." Canadian Journal of Counselling and Psychotherapy. Vol. 46 No. 1. 2012.
7. Michael Crook. Ronald Sutedja. Jeff LeForge. "Liquidity. Longevity. Legacy. A purpose-driven approach to wealth management." UBS Chief Investment Office, Global Wealth Management. 21 August 2018.

Appendix

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