

# Broadening the view on retirement

Why do we retire?

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# PAPER 1: WHY DO WE RETIRE?

## Executive summary

The rise in life expectancy over the past 150 years has brought us both the blessings of a longer life and the challenges of the pension systems' long-term financial stability. The measures policymakers have suggested to address these issues have largely focused on the economic aspects of the equation through measures like cuts in government pensions and benefits, rises in pension age, and urging employers and employees to be conscious about financial planning for retirement. However, the results of the surveys of Aegon Center for Longevity and Retirement and Leyden Academy on Vitality and Ageing have exposed a wide variety of wishes and ambitions that people have for retirement. It is much more than just a financial challenge; it is a phase of life where people aspire to stay socially connected, participate in their communities, and remain economically active. Therefore, research areas that deal with the connection between retirement and important aspects of later life such as health, vitality, life satisfaction and the image of elderly can contribute to helping people prepare for retirement and their societal position and engagement after retirement. However, the starting point in each of these areas is asking an important question: why do we retire?

## Living longer lives: consequences for retirement

Historically, government pension systems were put in place to prevent the elderly, who could no longer work, from falling into poverty. In a time when it was customary for children and other relatives to take care of infirm older people, those without relatives to look after them were at risk of becoming impoverished. Pensions initially took the form of government benefits, to which later collective arrangements such as employer pension plans were added. Retirement as a collective phenomenon was thus initially a matter of necessity with pensions taking the place of income that could no longer come out of work. Nowadays, our pension systems are composed of three pillars. The government pension is known as the first pillar, the second and third pillar refer to the occupational and private pensions, respectively.

However, recent demographic changes are putting pension systems under strain in many countries. The unprecedented rise in life expectancy over the past 150 years, together with falling birth rates is leading to a decrease of the ratio of working people to retirees. In addition, the baby boom generation is reaching retirement age. These developments have made pension systems' long-term financial stability the subject of much debate. The measures that policymakers have suggested to fix current issues, such as pension cuts and rises in pension age, have understandably generated heated and emotional reactions from the public.

Whereas living to older ages used to be reserved for the lucky few, nowadays the vast majority of people are living well past the retirement age. The remaining life expectancy at age 65 is approximately 20 years in developed countries. As a consequence, retirement is not a phase of life when people stop working immediately at a point in time because they have reached a certain age or are unable to work because of disease or disability. Instead, many now see retirement as a time for enjoyment and well-deserved rest where they have an opportunity to focus on their aspirations, while others envision continuing to work in some form after what is considered as traditional retirement age.

## Why do we retire?

As important as the challenges of collectively funding retirement are, we find the current debate to be too narrowly focused on financial issues and lacking in fundamental discussion of the functions of retirement. Pension systems are a means to an end: they function as a way of providing members of the public with financial security during life in retirement. Even those who are primarily interested in organizing these means need to take into account the purpose pension systems serve. We propose, now that pension systems have come under scrutiny, that we seize the opportunity to talk about retirement by asking ourselves the question at the heart of the matter: why do we retire?

From a societal or socioeconomic viewpoint, the answer to this question might be: 'To protect older people from falling into poverty when they are unable to work' or 'to make way for the young in the labor force'. The answer may be more complex from an individual's perspective: For some, it might be: 'to spend more time on my hobbies', 'to enjoy my well-deserved rest', 'to enjoy my grandchildren', 'to travel the world' or 'to continue working in some capacity'; others may be forced to retirement earlier than they planned due to circumstances like ill-health or job loss. When seen from the historical perspective that is summarized above, it is understandable that our current pension systems are designed on the basis of the socioeconomic approach to the question and not to cater to the great variety of needs and wishes of individual retirees. The options currently offered to citizens with respect to retirement are often very limited – in some places retirement at age 65 is mandatory and savings from pension plans are only accessible as monthly pay-outs. It is safe to say that supply does not meet everyone's demand when it comes to retirement and pensions.

## An anthropological approach

In order to comprehend the scope of the question of why we retire as well as the possible consequences, we turn to a research principle originating from the field of sociocultural anthropology, in which the so called 'etic' and 'emic' perspectives are distinguished<sup>1</sup>.

Anthropologists initially sought to understand and explain the behavior of 'native' individuals and societies using their own 'non-native' set of norms and values. This approach is known as the etic interpretation, in which the outsiders' perspective is dominant in the interpretation of the people under study and is used as the yardstick for insiders' views and principles.

During the postmodernist era in the 1960's, the emphasis in anthropological research shifted to emic approaches and interpretations, in which behavior is understood and explained from a native's point of view. It forced scientists to apply the reference frame of the people under study, which not only includes personal norms, needs and desires but also the sociocultural position and past experiences of an individual<sup>2</sup>. Taking this emic approach means approximating as close as possible the views and principles of the insiders and taking those as the starting point of analysis.

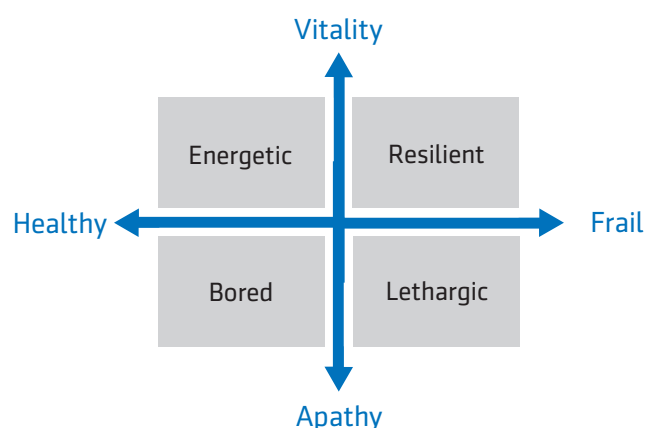
Thus, an etic perspective is how an outsider looks at reality, whereas an emic perspective approaches and represents the reality of insiders. In trying to follow this emic approach, anthropologists try to stay as close as possible to the views of the insiders, for instance by using literally the words their interviewees use, the narratives they put forward and following the beliefs, principles and ideas they put forward. In the context of the older generation, etic perspectives represent the generalized views of, for instance policymakers, scientists, pension providers or medical professionals, whereas an emic perspective creates an interpretation in which older people find themselves acknowledged and recognize themselves.

Both perspectives bring about quite different results, but are equally valid and can rather be seen as complementary views on phenomena. It depends on the target which perspective should have primacy. In this case, if we look at the supply on the pension and retirement market, a lot is developed on the basis of what governments and organizations find important, whereas older individuals themselves may desire and cherish very different aspects of later life.

Before we try to apply this anthropological approach to retirement research, we will revisit a publication of the Leyden Academy in which the implications of separating emic and etic views became apparent for studying healthcare and aging. In this publication Westendorp et al. highlighted the problems of the quest for 'healthy aging' that came into vogue as an answer to the consequences of population aging, as described earlier. It is the 'healthy' in healthy aging that is not attainable for the majority of older people, who simply have to deal with one or more chronic diseases. When older people were asked about their ideas on successful aging, they mentioned the satisfactory adaptation to functional limitations in old age to achieve and realize cherished goals and functions, rather than an optimal physical and mental functioning. The authors argued that the discrepancy between the professional focus on health in old age and the view of elderly on actively and effectively negotiating the challenges of aging has practical implications that are still not sufficiently applied in healthcare:

*(...) interactions between patients and medical professionals should start from a dialogue between equal stakeholders. An emic approach of the professional is critical for an intuitive and empathic understanding of the patient's problem. It introduces an extra responsibility for the patient, as it is pivotal that norms, needs, and desires are being sufficiently expressed. This dialogue, in which both parties contribute equally to the communication, should continue when considering therapy. It is essential that interventions are not only effective, but also possible and accepted. It is this "shared decision making" of patient and professional that may well result in starting trajectories that are at odds with current medical knowledge, consensus, or guidelines<sup>3</sup>.*

Figure 1: The vitality model

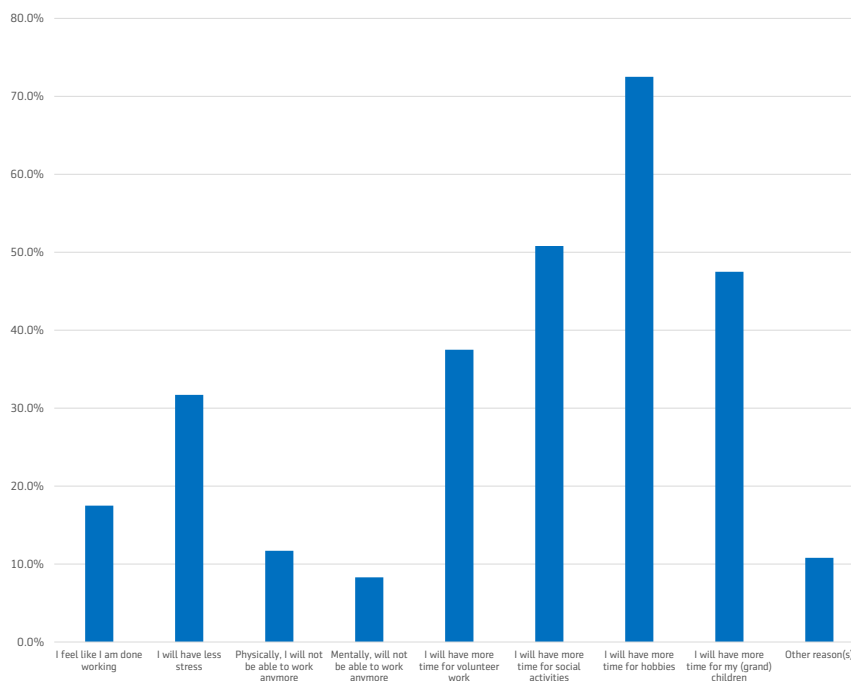


The concept of vitality was introduced as a way of complementing the health-focused approach of medical professionals with a more comprehensive concept. Vitality was defined as a satisfactory adaptation to functional limitations in old age, operationalized as 'the ability of a person to set ambitions appropriate for one's life situation and being able to realize these goals'<sup>4</sup>. Figure 1 shows the vitality model, as developed by The Leyden Academy, and illustrates the relation of vitality and health. Health is the primary goal in etic viewpoints of health care, whereas in emic older persons' views, health is an instrumental means towards the ends they do cherish, for instance visiting friends or family. The vitality model tries to capture the latter view, to help (healthcare) professionals approximate emic views.

## Emic and etic views in retirement

We contend that aspects of the debate on retirement resemble the way the described situation in healthcare is approached, primarily through etic views instead of emic views. The 'etic' views of policymakers and pension providers might have drifted away from the 'emic' perspectives of older people themselves. Through market research such as the Aegon Retirement Readiness Survey<sup>5</sup> or Leyden Academy's survey 'Shades of grey - Ambitions of 55+'<sup>6</sup> we explore the norms, values, needs and opinions of older people in the context of retirement. It is inevitable that our etic perspectives influence the results of these surveys, either through formulating the questions, or through the analysis and interpretation of the responses. This is not problematic per se, what is important is to realize the difference between the concepts emic and etic, and make sure that the emic views of elderly have been sufficiently explored before etic interpretations follow.

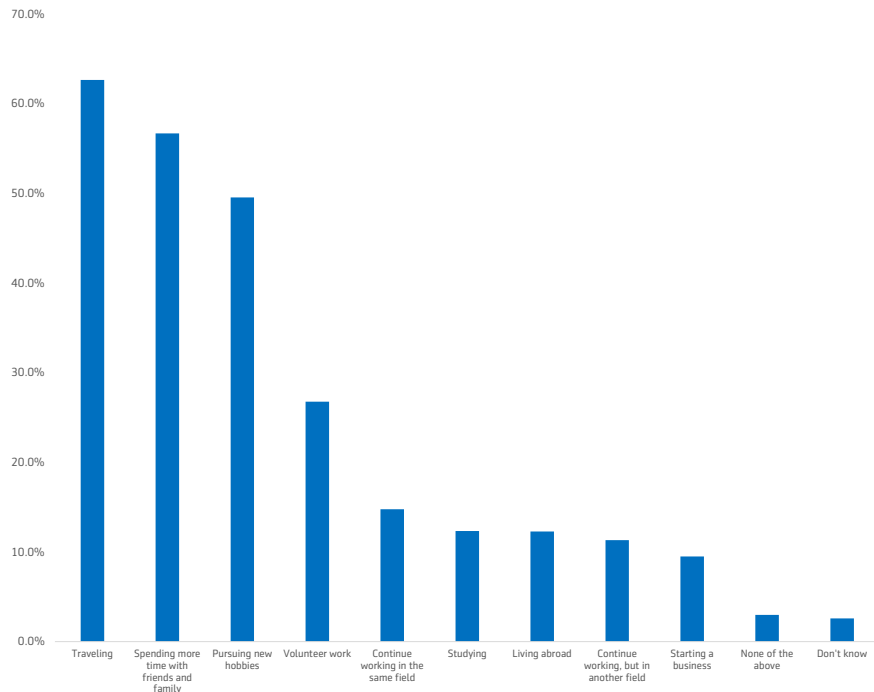
Figure 2: Motivations for looking forward to retirement



A possible discrepancy between emic and etic views on retirement appeared in the survey of the Leyden Academy when Dutch citizens aged 55 and over were asked why they would want to stop working. Figure 2 shows that most respondents focused on their personal ambitions for retirement; more than 70 percent of respondents said that they will have more time for their hobbies. Significantly fewer people said that they expect to be unable to work anymore because of physical or mental reasons, factors that have historically been the basis of retirement.

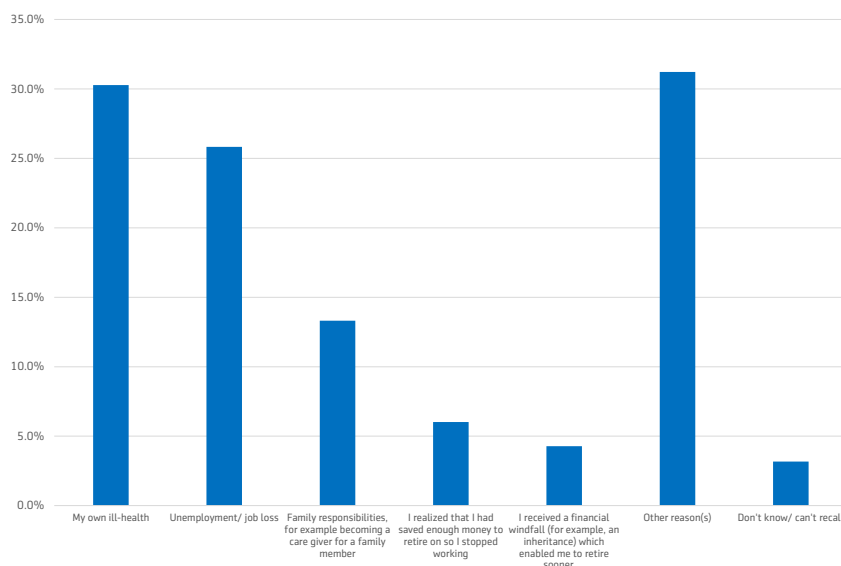
The Aegon Retirement Readiness Survey, carried out among 16,000 people in 15 countries, has shown that there is a wide variety of aspirations for retirement, including traveling, studying and spending time with family members. Figure 3 shows the aspirations for retirement of respondents of 18 years and older. The list of answer options was not exhaustive, but it shows a substantial variation in the wishes and ambitions for retirement.

Figure 3: Aspirations for retirement



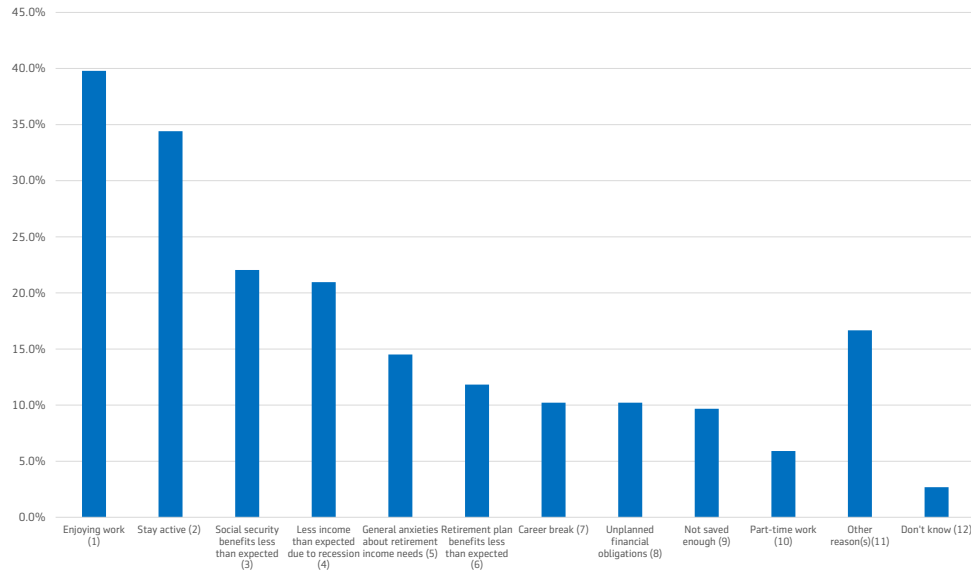
The survey finds that 39 percent of retirees retired sooner than they planned, 48 percent at the age they had planned and 12 percent later than they planned\*. Their reasons for stopping work sooner or continuing for longer than planned are equally manifold. Figure 4 shows the important reasons retirees had for retiring sooner from all paid employment than originally planned. Ill-health is an important factor and we will return to the relationship of health and retirement later on. Furthermore, the undefined category 'other reasons' is applicable to the highest percentage of respondents, which implies that the variety of reasons for retiring sooner than planned is much greater than depicted here.

Figure 4: Reasons for retiring sooner than planned



\* One percent do not know or cannot recall if they retired sooner or later in life than they planned or at the age they planned to.

Figure 5: Reasons for retiring later than planned



The reasons for delaying retirement from all paid employment until later than planned are showed in figure 5. For the clarity of the graph, the reasons have been abbreviated, the numbers correspond to the following reasons: I was enjoying my work/ career (1). I wanted to keep active/ keep my brain alert (2). I was concerned that social security benefits would be or were less than expected (3). My retirement income was less than expected due to impact from the last recession (4). General anxieties about my retirement income needs and whether my savings would last (5). I was concerned that my retirement plan benefits would be or were less than expected (6). I took a career break/ time out which meant I retired later than I had planned (7). Unplanned financial obligations, for example, support for children and other family members, divorce settlement, ... etc. (8). I had not saved enough on a consistent basis (9). I was unable to find full-time work and so worked part-time/ on temporary contracts (10). Other reason(s) (11). Don't know/ can't recall (12).

## Broadening the view on retirement

These first results call for a modern approach to retirement: not as a safety net, but as an important phase in life that can take many forms. Consequently, when thinking and acting on retirement reform, it is not sufficient to consider retirement simply as a financial issue. Several social, psychological and health-related factors influence retirement decisions and life in retirement.

First, health and retirement are related in several ways. Health is known to have an effect on the retirement decisions and planning of working people. Furthermore, health impacts life in retirement; it can be an enabling or disabling factor for the aspirations people have in retirement. The Aegon Retirement Readiness Survey shows that health in old age is a major concern for people of 55 years and older; 46 percent of people regarded health in older age as their primary concern. It indicates a willingness of older people to address the health issues in old age which are important for a satisfactory life in retirement.

Next to these health-related aspects of retirement, psychological issues play a role in wellbeing in retirement. With the new stage in life that comes with retirement, a person's role in society changes. It requires the ability of retirees to cope with this transition and formulate new plans, ambitions and wishes. It might be a promising strategy to help employees prepare for these psychological challenges that come with retirement. This life transition of retirement can also be accompanied by prejudices in the area of productivity, dependability or societal value. A well-known prejudice around working elderly is that they are less productive. Although this has been proven incorrect, the image sticks in the mind and can influence retirement planning and the possibilities for working in retirement. It is therefore important to know what the different views on retirees and older workers are, for instance by employers, young people and by retirees themselves. What is the effect of these images, and if necessary, how these images can be changed?



## Conclusion

Aegon Center for Longevity and Retirements and Leyden Academy's surveys show we need to broaden our view on retirement beyond looking at financial issues, pension systems and safety nets. The divergence of individual's wishes and aspirations with respect to retirement call for tailored solutions in retirement planning. For example, for someone who has to retire earlier than planned, the sudden change of social roles and the accompanying problems of giving meaning and purpose to life might be more urgent than the experienced loss of income. But also, people who want to travel at the beginning of their retirement might opt to take out a larger portion of their savings earlier on to fund their travels, at the cost of lower monthly pension pay-outs afterwards. Aspiring travelers might also want to consider retiring earlier, so as to be sure that they can travel while they are still fit. We believe it is possible to design pension systems that provide citizens with a certain degree of freedom, flexibility and choice, while maintaining the balance between pay-outs and contributions that is characteristic of collective arrangements.

We want to encourage the debate on retirement that goes beyond the traditional financial scope, informed by knowledge of individual motivations behind retirement and aspirations for retirement. As part of this debate, we recommend that policymakers and financial organizations work together to design more flexible pension systems that can facilitate the manifold wishes and desires people have for retirement.

## About this whitepaper series

Aegon Center for Longevity and Retirement has invited the researchers of Leyden Academy on Vitality and Ageing to help reflect on retirement from different academic angles, and inspire Aegon to encourage the debate on retirement beyond the traditional financial scope. This first whitepaper 'Why do we retire?' explores the various wishes and ambitions that people have for retirement, based on the combined results of the surveys of Aegon Center for Longevity and Retirement and Leyden Academy. In the three whitepapers that follow, we will further broaden the view on retirement from the perspectives of health and vitality, well-being and life satisfaction, and finally the image of retirement and retirees.

## Leyden Academy ON VITALITY AND AGEING

Research institute Leyden Academy's mission is to increase knowledge about ageing and vitality, and making it accessible to policymakers and the general public in order to improve the quality of life of older people. For more information, visit <https://www.leydenacademy.nl/home-en>.

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