
Where an Advisor Can Make a Big Difference

By Kerry Pechter Thu, Feb 18, 2016

'When one retires now has a much greater effect on one's retirement income, but workers lack cultural or clearly marked financial incentives to indicate when to retire, and are ill-equipped to estimate the financial implications,' writes Steve Sass of the Center for Retirement Research at Boston College.

The decision about when to retire is one of the most important financial decisions that many people will ever make. Yet most people, oddly, do not look closely into their finances before they leap into retirement. And even if they did, most of them wouldn't be able to crunch the numbers in a meaningful way.

That creates a big opportunity for financial advisors who have expertise in retirement income. Too many people blunder into retirement and make things up as they go along.

You might expect prudent people not to retire until after they've assessed their post-retirement income and expenses, and determined that an early retirement won't dangerously reduce their income in retirement or raise their risk of running out of money. Not so, according to Steve Sass, a researcher at the Center for Retirement Research at Boston College.

In a new [Issue Brief](#), "How Do Non-Financial Factors Affect Retirement Decisions?," Sass reviews the literature on the reasons why people retire when they do. The answer, "Because I knew I could afford to," isn't even on the list. Instead, most people retire when they feel like doing something else, or keep working after the normal retirement date because they're happy doing whatever it is they do.

To be sure, disability and unpleasant working environments do increase the likelihood of early retirement. People who have "jobs that require physical effort or good eyesight," or who are confronted with "age discrimination or inflexible schedules" at work are more likely than average to retire relatively early, studies like the Census Bureau's *Current Population Survey* show.

But those are not the biggest reasons for the decision to abandon the lifelong routine of rising with the sun each weekday, dressing in uncomfortably formal clothes, commuting alone in a vehicle that's big enough for six, and toiling under a supervisor's implacable eye for eight hours.

“Far more prevalent than these factors pushing workers out of the labor force are factors pulling them into retirement—a desire to ‘do other things’ or ‘spend more time with family.’ This inclination is especially strong during the popular retirement ages of 62-67,” Sass writes.

That would be fine, except that they don’t necessarily check to see if they can afford to stop working.

Ironically, the people most likely to keep working are the ones with the least financial pressure to do so. “Those who enjoy going to work—reaping non-financial rewards from employment—are more likely to remain in full-time employment and less likely to retire,” according to Sass.

These folks are generally not at risk for running out of money in retirement. “Individuals most likely to be working at these older ages are those with the strongest finances—those with the most education, greatest wealth, and highest lifetime incomes. Such workers have higher labor force participation at all ages, as they have fewer health impairments and better employment opportunities,” he writes.

In the past, people were often told when to retire; corporations invented defined benefit pensions for 65-year-olds because they wanted to make a clean break with older employees and create opportunities for younger, lower-paid employees. Today, the goal posts have disappeared.

“Retirement ages not so long ago were highly structured with strong financial incentives in both defined benefit plans and Social Security to retire no later than target retirement ages (65 in Social Security); augmented by national and employer expectations on when we retire,” Sass told *RIJ* in an email.

“That’s all (or largely) gone. When one retires now has a much greater effect on one’s retirement income, but workers lack cultural or clearly marked financial incentives to indicate when to retire, and are ill-equipped to estimate the financial implications.”

For instance, only 31% of people ages 65 to 70 with at least \$100,000 in investments know about the four percent rule, and only 37% know that they should dial down their investment risk during the “retirement red zone,” and only 30% know that working two years longer can substantially make up for undersaving, according to 2014 research by The American College (See “Data Connection” on today’s *RIJ* homepage).

Advisors have the equipment needed to help them. Many brands of retirement planning software offer on-screen “sliders” that allow advisors and clients to raise or lower the retirement date and see the change ripple through their spreadsheets. The hard part is getting clients to take advantage of those resources.

The decision about when to retire is a critical one, especially for middle-class people without big financial cushions. It will determine when they claim Social Security. It will increase or decrease the number of years their savings need to last. But most people don’t think about these things in detail. Optimizing the retirement date requires the kind of experience and technical expertise that only financial advisors can provide.

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