

What role does financial planning play in retirement satisfaction?

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Your life in retirement has the potential to exceed the life of your career. Think about that. That's very different than the generations before us. Having a plan — both a financial plan and a plan for how you plan to spend the next 30+ years — has never been more important. People with a plan are, not surprisingly, significantly more satisfied in retirement.

What does retirement mean for you?

Depending on the person, retirement is a word that can trigger positive or negative emotions. Work as we know it can be complex, and include long days, travel and conflict. It can also feed your soul with opportunities for accomplishment, social interaction, and financial benefit. If you find work to be frustrating and stressful, disconnecting from that experience can be a positive. Conversely, leaving a career can be a negative experience for those who have strong, long-time friendships at work and receive positive reinforcement or notoriety from their role.

Transitioning to retirement can feel overwhelming without a plan

The transition to retirement has become even more complicated over the past couple of decades with the replacement of pension plans (which provide steady income for life) by employee-funded deferred compensation plans (which place the risk of market volatility on the retiree). Similarly, the reduction in medical benefits and increased healthcare costs have left many retirees wondering how to manage expenses that exceed the resources provided by public safety nets such as Medicare and Social Security.

These new economic realities, combined with the social and emotional aspects of transitioning from work, can make retirement overwhelming to think about. A recent study found that 61% of American workers find preparing for retirement stressful.¹ Transitioning from work is especially challenging for those who have not thoroughly planned for it.

Given our longer lifespans, developing a plan that is unique and motivating is increasingly important. Individuals who reach age 60 have a 50% chance of turning age 90.² That means, you could be retired for 30+ years!

When we are younger, we are encouraged to spend years training and preparing for work that provides meaning and value, yet little emphasis is put on the need to prepare for a similar length of time in retirement. The lack of planning and forethought can lead to difficulty achieving social and emotional satisfaction in retirement as well as anxiety, depression and physical health challenges. On the other hand, older Americans who are more prepared for retirement, and believe they have purpose in their lives, are less likely to develop Alzheimer's disease, have a stroke or a cardiovascular event. They are also less likely to have chronic conditions and more likely to have above average life spans.³ Which leads to the question, what contributes to satisfaction in retirement?

3 keys to achieving retirement satisfaction

Since the beginning of the pandemic, a surge in the number of Baby Boomers announcing their intent to exit the workforce before age 67 has occurred (Baby Boomers are individuals who were born between 1946 and 1964.) The exit of Boomers has been inspired by increased wealth through asset growth in businesses, investments and housing. Many individuals view the current environment as an opportunity to take profits and add to their retirement nest eggs.

1. **Planning:** Research has shown thinking about retirement and engaging in planning positively impact retirement satisfaction. 4 Retirement planning provides an opportunity to test financial readiness and consider potential life changes that can increase expenses. Including trusted advisors in the process, such as a financial planner or accountant, can provide an objective voice and professional expertise as you make choices that impact your lifestyle financially.
2. **Wealth and companionship:** According to research, individuals with higher income, higher net worth and a spouse or partner are more likely to achieve satisfaction. However, even when controlling for income, net worth and relationship status, retirement planning does have a positive impact on life satisfaction in retirement. 5 Research also indicates that retirement planning positively impacts satisfaction even in cases where retirement is non-voluntary. 6
3. **Community and purpose:** Although financial stability is an important factor in achieving retirement satisfaction, research has shown that non-financial factors such as socialization, community and individual purpose should also be considered.

Considerations for a holistic approach to retirement satisfaction

- Evaluate and organize personal resources (such as assets, income, savings, Social Security)
- Anticipate health care costs and resources such as Medicare, supplemental insurance, and long-term care
- Plan for the future cost of living and the impact of inflation
- Think about what creates meaning and purpose for you – What activities will provide you with joy and a sense of accomplishment?
- Create a social network – Who will replace the network of friends and colleagues you enjoy through work?

If you find the thought of retirement stressful or need assistance establishing a road map to reach your goals, consider having discussions with others who have successfully made the transition as well as seeking assistance from a trusted advisor.

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[1] https://www.ebri.org/docs/default-source/rcs/2021-rcs/2021-rcs-summary-report.pdf?sfvrsn=bd83a2f_4

[2] <http://www.100yearlife.com/the-book/>

[3] <https://www.forbes.com/sites/bobcarlson/2019/02/21/the-one-factor-that-determine-if-your-retirement-will-be-a-success/?sh=63eb37a46909>

[4] <https://www.sciencedirect.com/science/article/abs/pii/S1057081099000360?via%3Dihub>

[5] <https://www.sciencedirect.com/science/article/abs/pii/S1057081099000360?via%3Dihub>

[6] <https://www.sciencedirect.com/science/article/abs/pii/S1057081099000360?via%3Dihub>

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