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Psychosocial Factors Influencing Planning for Retirement: A Quantitative Analysis

A thesis submitted in partial fulfilment of the requirements for
the degree of
Master of Arts in
Psychology

at Massey University, Palmerston North,
New Zealand

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2007

Abstract

A population approaching the end of their working life might reasonably be expected to be actively engaged in planning their retirement. This research investigates that assumption in a New Zealand population aged 55 through 70 who are currently in the work force and within ten years of being eligible for the New Zealand pension. The social and psychological factors impacting retirement planning, as determined by an examination of the literature, were identified as health and wealth. Distal to these two factors are the ramifications of income, selected occupation and career, educational choices and investment in dependents and family.

Survey results from a representative sample of this population were analysed using Structural Equation Modelling to assess whether these expected planning behaviours were relevant in New Zealanders. Two equivalent models utilised the survey questions in different combinations to gain an understanding of the impact of these psychosocial determinants. The results demonstrate how all these factors impact differently on women and men but that, contrary to expectation, health does not correlate with retirement planning. The implications of these results are discussed.

Acknowledgements

John Donne wrote: “no man is an island entire and complete of himself” and I wholeheartedly concur.

Firstly, I must thank Dr Christine Stephens, my supervisor, for her help and guiding hand through this process. She has repeatedly encouraged me to narrow my scope and stick to the point. I particularly appreciated her standing beside me when the germ of this study was presented to the team at the Retirement Commission. Chris made a three hour round trip to support me, a gesture indicative of her generous attitude to her students. My thanks also to the team who laboured to provide the data this research is based on and to Dr M. Beatrix Jones who provided invaluable support in understanding AMOS statistical outputs.

Secondly, my thanks to the Retirement Commission who believed in me and made exceptions to their criteria to award me this scholarship. Diana Crossan took time out while in Auckland to meet with me and discuss her thoughts on retirement planning and the members of her team were always willing to answer my questions.

Special thanks to my husband Dermott for his support of ‘the mad woman in the attic’ over the last year. His support was not in the form of endless cups of tea but in a steady stream of relevant articles from magazines and news papers; all of which encouraged me regarding the significance of this topic. To my parents and sister who have always believed I could do anything I set my heart and mind to, this journey would not have been undertaken without you.

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Introduction

A decline in both fertility and mortality is tilting the world's population balance toward older age, affecting the developed as well as the developing world. This pattern is repeated in New Zealand with the sixty five plus age group expected to double to twenty five percent by 2040 (Dunstan & Thomson, March, 2006) and increase the "elder" dependency ratio in that time to forty five percent. Over this period, the median age of the New Zealand (N.Z.) worker will exceed forty two years and the number of older workers will treble to 118,000 by 2026.

In many countries this population shift and subsequent retirement discussion is creating a Crisis discourse; a problem framed as "population aging as paradigm" and "deficit as paradigm" (Gazso, 2005). An Australian study assessing the impact of the impending demographic changes, notes that government expenditure will rise rapidly placing health care, welfare, and pension budgets under extreme pressure and recommends a change in current policy measures to reduce fiscal pressure (Lattimore, 2005). The Canadian and British governments have already taken action by moderating both pension entitlements and access (Hirsh, 2003; Gazso, 2005; Rudman, 2006).

Retirement and Pensions

Until the late 20th century in New Zealand, demands on pension funds were light due to shorter life span and rural workers remaining on their farms until

death (Glass & Flynn, 2000; St John, 2003). The last thirty years have seen that demand increase due to longer life spans and the move to urban occupations, complicated by political pension tinkering in the late 1980s. In New Zealand, policy changes to mitigate the fiscal and labour market impact of this trend recently centred on deferring the age of pension entitlement from 60 to 65 for men and women. See Appendix C for a discussion of the New Zealand pension.

To offset the predicted demand on pension funds, the pattern of retirement is expected to alter further with more men and women electing to continue in some form of employment for longer. In addition, governments will continue to push retirement provision responsibility onto the individual via the private sector. Kiwi saver is New Zealand's recent step in this process. To facilitate a positive retirement, the New Zealand pre-retiree will need to give consideration to savings and wealth, health status, employment choices and opportunities, tax incentives and pension options, and leisure expectations (Dunstan & Thomson, 2006)... in short, retirement decisions will increasingly require active planning.

Retirement has traditionally been a male prerogative (Joo & Pauwels, 2002), the concept of "Retirement" for women a more recent phenomenon precipitated by the unprecedented entrance of women into the paid work force from the 1970s (Price, 2000). World wide, the female retiree faces the financial pressures that accompany longevity. There are factors in the New Zealand retirement model which reduce these pressures but, while the universal pension remains in the political arena (St John & Gran, 2001) and fiscal pressures of an

older population increase (Lattimore, 2005), it would be prudent for New Zealand women to take responsibility for planning their futures.

These same financial and retirement factors are likely to also affect ethnic groups in New Zealand, as they already have in other parts of the Western world. Any group predisposed to a lower average income and socio-economic status (SES) will be adversely impacted by retirement provision changes. SES is a measure of status defined by educational attainment, occupation status, and economic well being (Wray, Alwin, & McCammon, 2005).

Researched to Death?

There are a large number of financially based studies on the impact of the ageing population and on financial aspects of retirement, including a number relating specifically to New Zealand (Dunstan & Thomson, 2006; Statistics New Zealand, 2004; Statistics New Zealand, 2005). In addition, there are numerous international studies on the financial, emotional, and physical status of retirees (DeVaney & Kim, 2003; Kloep & Hendry, 2006; Lusardi, 2000; Rosenkoetter & Garris, 2001). Other studies have assessed the psychological link between planning and retirement adjustment and satisfaction (Gall & Evans, 2000; Quick & Moen, 1998) and some consideration has been given to demographic reasons why some plan for retirement and some do not (Gee & Baillie, 1999). In these research papers, gender and ethnic differences in approaches to retirement for USA, UK, Australia, and Canada were discussed.

However, there is a paucity of research on the psychosocial factors that impact the pre-retirement planning behaviours of New Zealanders. There are three notable exceptions relating to the New Zealand population (Booth, Grimmond, & Stroombergen, 2000; Cervin, 2001; Marsault, 1999). What is missing is a coherent model examining the psychosocial factors impacting on New Zealanders' preparation and planning for retirement, and whether those factors differ in salience for males and females.

This paper will follow the scientific model for quantitative research. The literature review will start by investigating a relationship between wealth and planning for retirement. From wealth, it will assess the proximal factors that impact on wealth accumulation such as income and occupation and in turn the distal factors of human and social capital which impact income and occupation. A model will be proposed to investigate this flow of influence. The moderating factor of health will be considered in regard to its effect on planning for retirement and its capacity to interrupt planning.

The next section will introduce the research proposed to test this model, discuss method, and examine the results from a representative sample of New Zealanders in the 55 – 70 age range.

This will be followed by results, an assessment of limitations, a discussion on policy implications, and suggestions for future research.