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Psychosocial Factors Influencing Planning for Retirement: A Quantitative Analysis

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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.

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Table of Contents

Abstract	2
<i>Acknowledgements</i>	3
<i>Table of Contents</i>	4
List of Tables	7
<i>List of Figures</i>	8
<i>Introduction</i>	9
Retirement and Pensions	9
Researched to Death?	11
<i>Literature Review</i>	13
Retirement	13
Retirement Choices	14
Factors influencing retirement	14
Gender Differences	16
Able to Retire?	17
The New Zealand Story	19
Summary	20
Planning	21
What is Planning?	22
Why don't people plan?	23
Proximity to Retirement	25
Gender Differences	25
Summary	26
Wealth	27
Psychosocial processes of Savings Behaviour	27
Precautionary Savings Theory	28
Pension Savings	29
Psychosocial Factors	30
New Zealand Pensions	31
Women and their Assets	32
Summary	33
Income	34
Labour Economic Models	34
Gender Wage Gaps	35
Labour Market effects	36
Summary	39
Employment and Career	40
Employment Trends	40
Employment for older workers	42
Occupation choices	44
Gendered Jobs and Social Control	45
Climbing the Corporate Ladder	46
Employment and Health	48
Summary	49
Choice	50
Human Capital	50
Human Capital and Income	52
Education and SES	52
Women and Education	54
Summary	55

Social Capital and Dependents _____	56
Care Giving _____	58
Direct Cost of Dependents _____	60
Summary _____	61
Health _____	62
Health and Early Retirement _____	63
Health as Human Capital _____	64
Emerging Thoughts on Health _____	65
Health and SES _____	66
Physical Health _____	68
Mental Health _____	69
Summary _____	70
Hypotheses of this study _____	71
<i>Method</i> _____	76
Participants _____	76
Measures _____	81
Retirement Status _____	81
Physical and Mental Health _____	81
Planning for Retirement _____	85
Educational Qualifications _____	87
Dependents _____	88
Current Occupation _____	89
Current Income _____	89
Financial Wealth _____	90
Procedures _____	91
Statistical Analysis _____	91
<i>Results</i> _____	95
Confirmatory Factor Analysis _____	95
Structural Models _____	99
Model 1 _____	99
Factor Analysis _____	102
Model 2 _____	106
<i>Discussion</i> _____	112
Model Components Summarised _____	112
Education and Occupation _____	112
Occupation and the Financial Benefits _____	114
Planning: the End Result _____	116
Five Hypothesis in Review _____	117
Is there a Place for Health? _____	122
Limitations _____	126
Directions for further research _____	130
Policy Implications _____	133
A Productive Older Age _____	133
Conclusion _____	135
<i>References</i> _____	137
<i>Appendices</i> _____	149
Appendix A. Sample Questions from HWR Survey _____	149

Appendix B. History of Employment	156
A Historical Perspective	156
Understanding the markets	157
Appendix C. Pension Schemes in Australia, USA, Canada, and New Zealand	158
The Canadian story- where N.Z. is heading?	158
Pension history	159
Appendix D. The Concept of Risk	161
Gender Differences	161
Financial Investment	163

List of Tables

Table 1 - Average private personal income in N.Z. dollars showing gender differences (St John, 2003)	31
Table 2 - Assets held by two cohort sections of the New Zealand population in 2004	32
Table 3 - Relative income split by gender and ethnicity for New Zealand workers (St John & Gran, 2001)	37
Table 4 – the combined results on the occupational cost of motherhood from the three studies reviewed.	56
Table 5 - Mortality and SES results from the N.Z. Census-Mortality study (Blakely et al., 2002) covering 1991-1994.	68
Table 6 - Age distribution of Participants in this sub-sample of the HWR study	76
Table 7- the HWR population distribution according to their main ethnicity self-identification.	77
Table 8 - Occupational status of the sample HWR population based on participant primary occupation description.	79
Table 9 - Reported sources of income for the HWR population sample.....	80
Table 10 - Income and asset statistics for this sample population	80
Table 11 - Health constructs, a reliability test on these items for the population sample reduced the number of constructs to seven.	84
Table 12 - AMOS item regression output for the initial measurement model.	96
Table 13 - AMOS item regression output for the final measurement model. ...	98
Table 14 - The structural model applied to male only and female only data.	100
Table 15 - SPSS correlation coefficients for all items available for the model.	104
Table 16 - Total variance explained using Varimax rotation. Components having an eigenvalue greater than 1.0 were retained.....	105
Table 17 - SPSS Factor Analysis on all items, using the Varimax rotation... ..	106
Table 18 - AMOS SEM Fit Indices for the three versions of model 2.....	110
Table 19 - AMOS SEM Fit indices for the selected Model 2, showing the results from the Full and gendered data.	110
Table 20. HWR population who are self employed and employing others....	162

List of Figures

Figure 1 - Personal income of the average New Zealand male over the last 30 years (Callister, 2006).	38
Figure 2 - Personal income of the average New Zealand female over the last 30 years (Callister, 2006).	38
Figure 3 - New Zealand employment trends by cohort and gender over the last 30 years (Callister, 2006).	40
Figure 4 - Part time employment participation for the past 30 years, by cohort and gender (Callister, 2006).	41
Figure 5 - New Zealand employment participation over 30 years, by gender and cohort (Callister, 2006).	42
Figure 6 - Employment participation, by gender and age group show similar trends from the 2001 census.	43
Figure 7 - New Zealand education trends by cohort and gender over 30 years, showing decline in numbers of uneducated (Callister, 2006).	51
Figure 8 - Fields of tertiary study by gender (from Statistics New Zealand's Labour Market Analysis).	54
Figure 9 - An analysis of reasons why people are not in the labour force (2004).	57
Figure 10 – The proposed model: Psychosocial factors expected to impact on retirement planning.	72
Figure 11- Final education qualifications of the sample HWR population.	78
Figure 12 - The initial measurement model showing standardised regression values of each item on to the model constructs.	95
Figure 13 - The final measurement model, showing the relationship of the survey items to the model constructs.	99
Figure 14 - The structural model, generated from the above measurement model is based on total data, with Health and Dependents removed.	100
Figure 15 - AMOS results for the structural model - Model 1 - on male only data.	101
Figure 16 - AMOS results for the structural model - Model 1 - on female only data.	102
Figure 17- AMOS SEM Model 2: a relationship between wealth and planning and factors which impact on wealth.	107
Figure 18 - AMOS SEM Model 2 B: the final model showing the relationship between wealth and planning and the factors which impact on wealth.	108
Figure 19 - AMOS SEM Model 2 C, relationship between wealth and planning and factors which impact on ealth, with the inclusion of health.	109
re 20 - AMOS SEM Model 2 using Male only data.	111
Figure 21 - AMOS SEM Model 2 using Female only data.	111
Figure 22 - Relationship between Health and Wealth for female only data.	124
Figure 23 - Employment status of the N.Z. worker showing a similar trend between men and women, with women slightly less likely to be an employer or self employed (Statistics N.Z. – Employed Statistics 2004)	162

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.