

The Secret to a Happier Retirement: Friends, Neighbors and a Fixed Annuity

By Jonathan Clements

27 July 2005 The Wall Street Journal

YOU'VE WAITED 40 YEARS for this. Try to enjoy it. After four decades in the work force, the oldest of the baby boomers will call it quits over the next few years. Today's question: How can these folks improve their odds of a happy retirement?

For an answer, I turned to economists who have done work in the emerging field of "happiness research" -- and came away with seven pointers.

1. Value your time. Surveys in dozens of countries have found there is a relationship between age and happiness.

Folks tend to become increasingly unhappy through their 20s and 30s, typically hitting bottom in their 40s, before rebounding from there. "Retirement should be a happier time, conditioned upon not being ill," says Dartmouth College economics professor David Blanchflower.

It isn't clear what drives this pattern. But Keith Bender, an economics professor at the University of Wisconsin-Milwaukee, speculates that midlife dissatisfaction stems from a lack of control over our daily lives -- and that retirees are happier because they have more freedom.

"When you're middle-aged, you don't have much choice," he notes. "You have to work. But when you're young and when you're old, you have more time."

2. Think ahead. While retirement should be a happy period, the transition can be rough. Indeed, Prof. Bender found that those who plan their retirement are usually happier, while seniors who are pushed out of the work force by ill health or layoffs are less satisfied.

Of course, if you are compelled to retire prematurely, there isn't a whole lot you can do about it. Still, you could ease some of the anguish by thinking now about how you will pay for retirement and what you might do once you leave the work force. "You can be forced into retirement at almost any time, so you need to be as ready as possible," Prof. Bender says.

3. Expect less. As you look ahead to retirement, give careful thought to what sort of lifestyle you can reasonably afford.

Researchers have found, unsurprisingly, that greater income and wealth lead to greater happiness. But the gain in satisfaction from, say, an extra \$25,000 of wealth is smaller than you might imagine. One reason: Much depends on your relative wealth -- including your wealth relative to your expectations. "What you have in the bank, according to the data, does not matter all that much," says Andrew Oswald, an economics professor at England's Warwick University. "What really matters is the gap between what is there and what you think you ought to have. Millionaires can feel relatively poor."

4. Pick your neighbors. Relative income and wealth are also important in another sense: People care deeply about how their standard of living compares to their neighbors'.

"Suppose you're planning to move to Florida," says Erzo F.P. Luttmer, an economics professor at Harvard University's Kennedy School of Government. "Instead of moving to a neighborhood you can barely afford, you might go somewhere that you can comfortably afford. That way, you'll be among people who are taking the less ritzy cruises, and you will be more content."

5. Buy yourself income. Prof. Bender found that retirees who receive traditional company pensions are happier than those who have to rely solely on the savings they have amassed in 401(k) and similar retirement-savings plans. Seniors, it seems, like the sense of security that comes with guaranteed, predictable income.

What if you don't have a traditional pension? You could always buy yourself a comparable stream of income by stashing part of your nest egg in an immediate-fixed annuity that pays lifetime income.

Unless you take less income in return for some sort of guarantee, this stream of income will die when you do, so you should purchase an immediate annuity only if you are in decent health. Also, because the payments on most fixed annuities don't rise over time, you shouldn't annuitize your entire nest egg. Instead, consider investing part of your portfolio in stocks, so you have a shot at keeping up with inflation.

6. Work at retirement. Taking a part-time job might seem like a dire step taken only by retirees desperate for extra income. But, in fact, Prof. Bender found that working in retirement seems to increase satisfaction. There is, however, an interesting wrinkle: Retirees are less satisfied if they aren't working, but their spouse is. "You want to enjoy the time together," Prof. Bender says. "It's better if you can time it so you're both retired at the same time."

7. Invest in friendship. Your retirement dream might be to travel

the globe. But you may be better off having a few friends over for dinner.

"Recent research suggests that regularly seeing good friends in the local park will bring a greater boost to mental health than having a shiny German automobile parked outside your retirement home," says Warwick University's Prof. Oswald. "My candid advice to aging Americans would be to use your hard-earned cash to invest much more in friendships than in material items."

Retirement Rules

Want a happier retirement? Here's what economists suggest:

- Make detailed retirement plans in your 50s -- in case you're suddenly laid off.
- Don't live in a neighborhood you can barely afford.
- Aim to retire at the same time as your spouse.
- If you don't have a traditional pension, buy an immediate-fixed annuity that pays lifetime income.