



# EXECUTIVE SUMMARY

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## Wealth and retirement

The aim of this study is to find out whether wealth affects a persons' decision to retire. The wealth of many persons approaching retirement age has grown to such amounts that they could afford to retire early. This possibility may play an important role for the success of the policy that strives to achieve a postponed retirement age.

The connection between wealth and the retirement decision is not straightforward. To a great extent, both wealth and the timing of the retirement are a result of people's individual plans. Society steers the planning through taxation and pension scheme regulations. For a single individual or household, the end-result is also affected by unexpected changes in earnings, asset prices and, for example, inheritances.

No previous studies have been conducted in Finland on the impact of wealth on retirement. In other countries, this question has been explored using three different methods. Firstly, people have been asked directly whether their wealth has an impact on the timing of their retirement. Secondly, the connection between the timing of the retirement and wealth and any other variables can be studied statistically, using data on individuals. Thirdly, numerical simulation models focusing on people's savings and retirement decisions can be constructed, and the issue can be examined on the basis of these models.

Based on international literature, our research begins with a review of research results achieved using the above three methods. In the second section, we describe how Finnish citizens have responded when asked about the impact of their wealth on the timing of their

retirement. In the third section, we construct a simulation model, with the help of which we review the connection between wealth and retirement on old-age pension. This is the first life cycle model applied to Finnish data where the individual makes decisions concerning savings and retirement without knowledge of future earnings. In the decision making, the individual takes into consideration the determination regulations concerning earnings-related and national pension benefits, as well as the key features of income taxation.

In the United States and Great Britain, a considerable share of those who replied to the interview and questionnaire surveys noted that they reacted to the drop in share prices by postponing their planned retirement. The problem with these replies is that they do not generally specify to what extent the reduction of wealth causes changes in plans, nor is it clear how many of the respondents eventually implement their plans.

Statistical research provides a conflicting notion of the matter. Many American studies, based on data from the upswing of the share prices in the 1990s, show that a growth in wealth advances early retirement. On the other hand, when the research data is supplemented with data from the period of plummeting share prices in the early 21st century, and when focus is placed on unexpected changes in wealth, most studies can no longer find a significant connection between personal wealth and retirement. Some researchers interpret the results as follows: the connection exists for some individuals, but it is not general enough to appear in all surveys. This is also indicated by the fact that, during the period covered by the surveys and measured on a population level, the employment rate of the elderly increased steadily, even though the fluctuations in share prices were great. The impact of the financial crisis during 2008–2009 cannot be determined yet since there are no statistics available for this period.

According to questionnaire studies performed in Finland, many factors, including a pleasant atmosphere at work, are more important criteria than monetary incentives when making pension choices. The impact of wealth on retirement decisions was charted in 2004 with a questionnaire attached to Statistics Finland's wealth survey. Of the already retired respondents, slightly less than eight per cent declared that wealth affected, either greatly or somewhat, their decision-making regarding the age of retirement. A third of those aged 54 and still in working life was of the opinion that wealth will affect, either greatly or somewhat, their choice of retirement age.

One reason for the differences in the responses of these groups probably lies in the selection of respondents. Some of those already retired have done so, not of their own choice, but due to disability, in which case the significance of wealth has been minor. Another possible explanation is that the expectations of the significance of wealth are not materialised at the time when those continuing in working life will retire. In this study we show that, when dividing the group of people continuing in working life into those who expect wealth to be of significance and into those for whom wealth lacks importance, the distribution of the expected retirement age is almost identical. In other words, based on the questionnaire data,

it would seem that the amount of wealth is significant to many when they plan the time for their retirement, but differences in wealth do not manifest systematically as different choices regarding the age of retirement.

In our simulation model, a greater wealth will cause people to retire early from working life since lost earnings and a reduced pension can be compensated by liquidating assets. However, the connection between wealth and the age of leaving working life is not very strong in our model. This is partly explained by the fact that individuals, who have much wealth when approaching the age of retirement, usually also have a high salary. The high salary, in turn, motivates them to continue in working life. Correspondingly, based on the results, there is no reason to assume that the continued growth of wealth due to increasing salaries in the future would inevitably shorten the working careers of the next generations.

Nevertheless, wealth is of significance from the point of view of the incentive effects of various pension reforms. In our model, we experimented with two pension reforms. In both of them, the lowest old-age retirement age was raised. Raising the old-age retirement age will prolong careers but, on average, clearly less for those that have a substantial amount of liquid wealth when approaching retirement age. This is due to the fact that it is easier for wealthier persons to finance an early retirement by using their own savings. Therefore, wealth makes it more difficult to postpone the retirement age by raising age limits.

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