Retiring during economic booms could cause financial hardships for retirees, study finds

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The recent economic downturn and volatile financial markets have drastically reduced the retirement accounts of many current and future retirees. In a new study, a University of Missouri financial expert has found that many Americans choose to retire when the economic markets are peaking, an action that can, ironically, cause major problems for the long-term financial stability of retirees.

"Potential retirees often will first meet their targeted retirement savings goals during an up market and will be tempted to retire at that point," said Rui Yao, an assistant professor of personal financial planning in the College of Human Environmental Sciences at MU. "The problem with this strategy is that the economy runs in cycles, meaning that after a peak, the market will take a downturn. People who have retired shortly before an economic downturn run a serious risk of losing a significant portion of their retirement savings, which will shorten the longevity of their retirement income. This could result in many retirees outliving their retirement savings and facing financial hardships toward the end of their lives."

Yao recommends that potential retirees hold off on retiring immediately upon reaching their target savings goals, particularly during an economic boom. She says that potential retirees should retire during an economic downturn, as long as they have saved enough to be comfortable. That way, she says, once the markets recover, retirees' savings will increase above their initial target goals, which will create an adequate financial cushion for future economic downturns.

In the study, which was published in the *Journal of* Personal Finance and funded by a grant from Prudential Insurance Company of America, Yao examined data from the Health and Retirement Study, which is a national biannual survey conducted by the University of Michigan. The study reviewed the financial and retirement statuses of more than 4,000 households with retirement-aged Americans from 1992 to 2008. Yao found that the probability that retirement-eligible Americans chose to retire increased as the number of consecutive up market years increased. Every one percentage increase in market returns increased the probability of retirement by more than two percent.

Yao also found that working Americans with a retired spouse were more likely to retire than all other household types, including those with a working spouse and those without a spouse. Yao says this trend could also create potential financial problems.

"It makes sense that many married couples would want to retire around the same time," Yao said. "However, if both spouses decide to retire close to the end of an up market, the household would have little to no cushion should their retirement portfolios be affected by an economic downturn."

Ultimately, Yao believes these findings show the need for retirement planners, employers, and financial educators and practitioners to help pre-retirees better understand the challenges they face in order to reduce the likelihood of financial problems after retirement.

Provided by University of Missouri-Columbia