Even the best-laid plans don’t always work. Prudential’s research study found that about half (51%) of retirees retired earlier than planned. While early retirement may seem like welcome news, only 23% retired earlier than planned because they either had enough money to retire, wanted to retire, or were tired of working. Forty-six percent of those who retired earlier than expected did so due to health problems, 30% were laid off from their jobs or offered an early retirement incentive package, and 11% left work to take care of a loved one.¹

So, the vast majority of individuals who retired earlier than planned did so in response to factors that were partially or fully out of their control.

Interestingly, pre-retirees seem well aware of these risk factors. When asked about their greatest concerns that could negatively affect retirement savings, three of the factors cited – illness or disability (43%), losing a job (35%), and taking care of a loved one (12%)² – could “force” an early retirement. As shown in the chart below, these factors closely mirror the actual reasons that retirees cited that caused them to retire earlier than planned. Other concerns pre-retirees listed were health care costs (the top concern), potential changes to the Social Security program, and market factors, such as inflation, a market crash, and market volatility.

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1 Survey responses total more than 100%, because respondents could select more than one reason.
2 Respondents could select more than one concern.
Not only did retirement occur earlier than planned for many, but the gap between average actual and expected retirement ages was significant. Of those who retired earlier than planned, half (50%) retired five or more years early. This is especially important because the last several years of individuals’ careers are generally considered to be among their top earning years, and provide an opportunity to boost the formulas that may drive retirement income levels from Social Security benefits and defined benefit pension income, if any.

### Retirement age for Retirees (actual) vs. Pre-Retirees (expected)

This gap in expected vs. actual retirement age is likely to continue. The above graph illustrates that today’s pre-retirees target a retirement age of 65, which is much higher than the actual retirement age of 59 for the retirees in the study. Moreover, 20% of pre-retirees expect they will never retire.

**Implications of unexpected early retirements are significant**

Several forces may converge to strain individuals’ financial resources in the event of an unplanned early retirement. First, individuals will have additional years in which to provide retirement income – some of which may occur before individuals become eligible for Social Security benefits. In addition, individuals retiring earlier than planned may start retirement with a lower level of assets because they have fewer years in which to build a nest egg. Fewer working years may also result in lower defined benefit pension income and/or Social Security income. (Social Security bases its benefits on the average of the top 35 years of earnings, so individuals retiring with less than 35 years of earnings will be affected.) Finally, the potential loss of employer-sponsored health insurance, coupled with an increase in out-of-pocket expenses for individuals retiring for health reasons, may further strain financial resources.

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1 Responses of pre-retirees who expect they will never retire are not included in the average expected age of 65.
These factors can significantly impact the level of retirement income generated from retirement savings. An analysis by the Urban Institute reveals that working an additional five years would result in a 56% increase in retirement income based on the incremental net wealth accumulated.\(^4\) Said another way, this translates into a 36% reduction in retirement income for individuals retiring five years early – indicating a significant “penalty” for retiring earlier than planned. The graphic below illustrates that the additional years of work are especially important to lower-income individuals.

Impact of working five additional years on annuity income at retirement
(by Lifetime Earnings Quintile)

<table>
<thead>
<tr>
<th>Lifetime Earnings Quintile</th>
<th>Percent Change in Annuity Income at Retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>56%</td>
</tr>
<tr>
<td>Bottom Quintile</td>
<td>98%</td>
</tr>
<tr>
<td>4th Quintile</td>
<td>71%</td>
</tr>
<tr>
<td>3rd Quintile</td>
<td>61%</td>
</tr>
<tr>
<td>2nd Quintile</td>
<td>52%</td>
</tr>
<tr>
<td>Top Quintile</td>
<td>42%</td>
</tr>
</tbody>
</table>


To make matters worse, when it comes to actually being prepared to retire, Americans, on average, grade themselves a “C” – and this grade assumes their current expected retirement age. It is clear that many pre-retirees could benefit from a financial plan. Nearly three-quarters of pre-retirees (74%) agree that they should be doing more to prepare for retirement, but 40% say they simply don’t know what to do. Over half (54%) of pre-retirees have less than $150,000 saved in their employer-sponsored plans. On a positive note, pre-retirees, on average, have started saving earlier (at age 30) than retirees started saving (at age 39).

The research also illustrates how vulnerable Americans’ financial security is to their health condition. According to Stanford’s Sightlines Project, the elements of financial security, healthy living, and social engagement are interconnected.\(^5\) A major health event could wreak havoc on an individual’s retirement plan. This is consistent with Prudential’s research findings – health problems are the top reason for retiring early, and pre-retirees’ major concerns affecting retirement are health care costs, an illness, or a disability.

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Financial professionals can help

Unexpected life events happen. Financial professionals can help individuals understand that a financial strategy should reflect contingencies related to retirement age. Financial professionals can work with individuals to:

- **Provide new perspectives on the planning horizon** to reflect a range of years in which retirement income is needed. Outcome-oriented products, such as target-date funds, in which professionals construct customized investment glide paths, are designed so that investors do not have to continuously monitor and adjust their asset allocations.

- **Provide advice and education** as part of a retirement strategy that underscores the need to save early, save enough to reach goals and prepare for the unexpected, invest in a well-balanced portfolio, and monitor the portfolio periodically.

- **Take a holistic approach**, given the interdependencies of financial security, healthy living, and social engagement. A positive behavior change in one of these aspects may have a multiplier effect that enhances the quality of life in all aspects. Encourage more positive and healthy behaviors throughout adulthood to help individuals live long and healthy lives while enjoying financial security.

The Retirement Preparedness Study was conducted using an online survey among 1,568 adults (including 438 retirees) who met the following criteria:

- Age 21 and up
- Primary or shared responsibility in making household financial/investment decisions
- Employed full-time or part-time, self-employed, stay-at-home parent, or retired

The survey was conducted by Harris Poll on behalf of Prudential between July 20 and August 9, 2016. Results were weighted where necessary by age, gender, race/ethnicity, region, education, income, size of household, marital status, employment status (for non-retirees) and propensity to be online to bring them in line with their actual proportions in the population.