

**Vanguard**<sup>®</sup>

**Executive summary.** The conventional view of retirement—working full-time until a set date and then shifting to full-time leisure—does not match the experience of many older Americans, according to our national survey. The paths to retirement are varied, and different types of work are common in the early retirement years.

**Not-so-new retirement.** About six in 10 (61%) Americans age 40 to 69 indicated that retirement includes some element of work, suggesting that the idea of a “new retirement” for the baby boom generation, combining work and leisure, is not particularly new.

**Downshifting.** A common strategy for making the transition from work to retirement is downshifting—at older ages, reducing hours or shifting to a less stressful or simpler job. Nearly one-quarter of respondents age 55 to 69 have downshifted at least once; 4 in 10 expect to do so in the future. Among younger respondents, the desire to downshift is quite strong, with three-quarters hoping to do so in the future.

**Six paths to retirement.** Based on work histories of Americans age 55 to 69, six patterns have emerged regarding the transition from work to retirement: Early Retirees, Still Working, Work and Play, Returnees, Spouse’s Retirement, and Never Retire.

**Early Retirees.** Individuals on this path (29% of Americans age 55 to 69) exit the full-time workforce largely in their 50s and stop all work thereafter. Key triggers for this path include a defined benefit (DB) pension, a defined contribution (DC) lump sum, a high savings balance, or strong savings habits in the past. Also more likely to be on this path are those in poor health or those with a high-school-or-less education.

#### Authors

John Ameriks  
Holly B. Fergusson  
Anna B. Madamba  
Stephen P. Utkus

**Work and Play.** A small number (12% of Americans age 55 to 69) leave full-time work in their 50s, but then quickly take on high levels of part-time work or self-employment. Sometimes known as the semiretired, individuals on this path are more likely to include those receiving a DB pension or a DC lump sum. Their motivation for continuing to work revolves around more positive factors (being active, having more discretionary funds, enjoying their work) rather than constraining factors (working to meet basic expenses or to pay for health insurance).

**Still Working.** Individuals on this path (35% of Americans age 55 to 69) exit the full-time workforce later than those on the preceding two paths, mostly in their 60s. Most continue to engage in part-time work or self-employment in their late 60s. What distinguishes individuals on this path from the two prior paths is a lower level of financial resources, including not having a DB or DC plan. These individuals are more likely to be healthy, female, and with an associate's, bachelor's, or graduate-school degree. They also are more likely to include the divorced, widowed, or separated.

**Returnees.** Those returning to work after retiring (5% of Americans age 55 to 69) leave work quite early, typically in their 50s, stop working entirely—and then return to work a few years later. They are more likely to be male or covered by a DB pension, but they also are more likely not to have saved much in the past, or to be divorced, widowed, or separated. Emotional and financial factors are both important drivers for returning to work.

**Spouse's Retirement.** Another small group (9% of Americans age 55 to 69) includes individuals with much lower participation in full-time work in their 40s and 50s. They are more likely to be married women in excellent health.

**Never Retire.** Individuals on this path (10% of Americans age 55 to 69) continue to work in various forms through their 60s. The key difference is they say they never plan to retire. Their decision to work is driven by a desire to be active (71%) and the type of work they do (69%), although a majority (58%) also are working to meet basic living expenses.

**Implications.** For many older Americans, the transition to retirement is a gradual and varied process that blends work and leisure. An individual's path will be influenced by financial resources, health status, and other demographic and motivational factors. Regardless of the path chosen, the desire for downshifting is quite high.

For employers, one important implication is to consider how to enhance flexible work arrangements to attract and retain an aging workforce. For policymakers, efforts to enhance phased retirement—the ability to receive benefits from qualified retirement plans while continuing to work for the same employer—remain a top priority.

For financial advisors, the simple planning model—working full-time until age 65 and then retiring to a life of leisure—needs to be revisited, with different approaches required for the specific paths clients are following.

Finally, for individual Americans, retirement increasingly will be a period of leisure accented by work. The traditional retirement model—full-time work leading to full-time leisure—is only made possible by a meaningful accumulation of benefits and savings. For those who have failed to save adequately enough for retirement, other paths to retirement that emphasize work are likely available. Those paths can help close any financial deficit, while also offering potential psychological rewards.

## Introduction

According to conventional wisdom, the phase of life known as retirement begins with a sudden, if not abrupt, transition from full-time work to full-time leisure. A typical American is thought to work full-time, often in a long-tenured job, up until a set retirement day, usually age 62 or 65. On his last day of work, he picks up a final paycheck, signs up for Social Security and a pension, and begins retirement the next morning. Retirement is seen as a period of relaxation, leisure, and, above all, no work. This, at least, is the model of retirement presented to most American workers.

This conventional view underlies most retirement planning advice. When planning for retirement, even young workers are expected to identify a specific retirement age. In most planning models, individuals are saving and investing until retirement age—and when they reach that point, they promptly shift to the spending or deaccumulation phase. Social Security and DB plans reinforce this notion of a fixed date, with explicit early and normal retirement ages.

Yet the actual transition between work and retirement may be more nuanced—more blurred—than conventional wisdom suggests. Today the typical American man retires at age 63 (for the typical woman it is younger because some women participate at lower rates in the workforce). Meanwhile, the Social Security Administration reports that 45% of Americans age 65 to 69 are earning income from work, as are 25% of individuals age 70 to 74.<sup>1</sup>

The distinction between work and retirement, already blurred, is likely to become even more fluid in the future. Retirees in the baby boom generation will rely increasingly on DC plans, which lack the set retirement dates of DB pensions and appear to encourage a longer period of work.<sup>2</sup>

Baby boomers also are generally better educated and healthier than their parents, and the number of non-physically-demanding jobs in the economy continues to rise. Many retirees will want to work. Finally, for baby boomers with underfinanced retirement plans, work is an important financial safety valve for those in their 60s and 70s, as long as they remain in reasonably good health.<sup>3</sup>

Our current research explores this transition from the world of work to the world of retirement. Using actual work histories from older Americans, we identify six distinct paths from work to retirement.

We also examine the events or triggers that influence the path taken by a given person, particularly triggers related to finances or health. In our view, individuals do not change their relationship to work solely as a matter of personal preference. They may prefer to reduce their work commitments, but they also need financial resources to make a change. These resources are tied to employer benefit plans as well as personal savings habits. In short, an immediate (or gradual) transition from work to retirement is an option for those who have accumulated the resources to finance it. Equally, a gradual transition or continued work may be a necessity for those with inadequate savings.<sup>4</sup>

As part of our research, we also focus on the phenomenon of “downshifting”—the decision over time to reduce the number of hours worked or to shift to a simpler or less stressful job. Actual downshifting among older Americans is reasonably common, and the demand for downshifting in the future among middle-aged and older Americans is high. The phenomenon cuts across all six paths to retirement to varying degrees.

---

1 Social Security Administration, 2004, p. 5.

2 Friedberg and Webb, 2003.

3 Munnell, Buessing, Soto, and Sass, 2006.

4 See Pension Research Council (2006) for a survey of the financial prospects of the baby boom generation.

This report is organized in three main parts. Following an overview of our research methodology, the first section defines the six paths to retirement based on work histories. The second section considers the financial, health-related, and other demographic and motivational factors associated with each of the paths. And in the third section, we take an in-depth look at the phenomenon of downshifting.

## Methodology

Our findings are based on a two-phase research program. The first, qualitative phase consisted of hour-long interviews with 38 men and women, age 40 to 75, from four U.S. states in different regions of the country. The interviewees were drawn from a variety of work and retirement circumstances. We used the results from these interviews to structure our formal survey and to suggest hypotheses for our quantitative analysis.

The second, quantitative phase took place in April and May 2006 and involved a survey sample of 2,474 respondents. A formal online survey was administered to respondents age 40 to 69 drawn from the national online panel of Harris Interactive, Inc. The first wave of respondents was a random sample; the second wave was an oversampling of certain populations of interest, such as part-time workers or younger retirees. All of the results in this report are reweighted to the U.S. population age 40 to 69 based on age and employment status.

For statistics summarizing the entire sample, the sampling error versus the national population is +/- 2%.

Our median respondent is age 52, has a household income between \$50,000 and \$74,999, and has retirement savings between \$50,000 and \$99,999. (Complete respondent characteristics can be found in Appendix I.) Just more than half (52%) of the respondents are male. Nearly 70% are married or partnered, and 84% own their home. Just less than one-quarter of the sample has a high school education or less, while 37% have at least attended college. Compared with national census data, our respondents have income levels near national averages, while their education levels are somewhat higher.<sup>5</sup>

---

<sup>5</sup> According to the U.S. Census Bureau, median total annual income for households in 2004 ranged between \$50,000 to more than \$60,000 for heads of household in their 40s and 50s. It was approximately \$45,000 for those age 60–64 and \$34,000 for those age 65–69. In terms of education, the U.S. Census Bureau reports that in 2003, approximately 29% of individuals age 40–69 had a bachelor's degree or better, while 37% of our respondents reported having a college education or better.

## Part I. Six paths to retirement

We first sought to understand the transition from work to retirement by gathering work histories from our respondents age 40 to 69. Each respondent was asked to provide us with a past and current work history as well as an expected future work history through age 74. Specifically, for various five-year periods (age 40 to 44, age 45 to 49, etc.), respondents indicated whether they were or would be involved in various work situations—full-time work, part-time work, self-employment, unemployed and looking for work, or not employed and not seeking work.

These work histories combine both recollections of the past and expectations for the future. For example, a 42-year-old completing the survey provided one period of actual work history (age 40 to 44) and many periods of expected future work (age 45 to 74). Meanwhile, a 62-year-old provided an actual work history through the current age range (60 to 64) and expectations for the future through age 74.

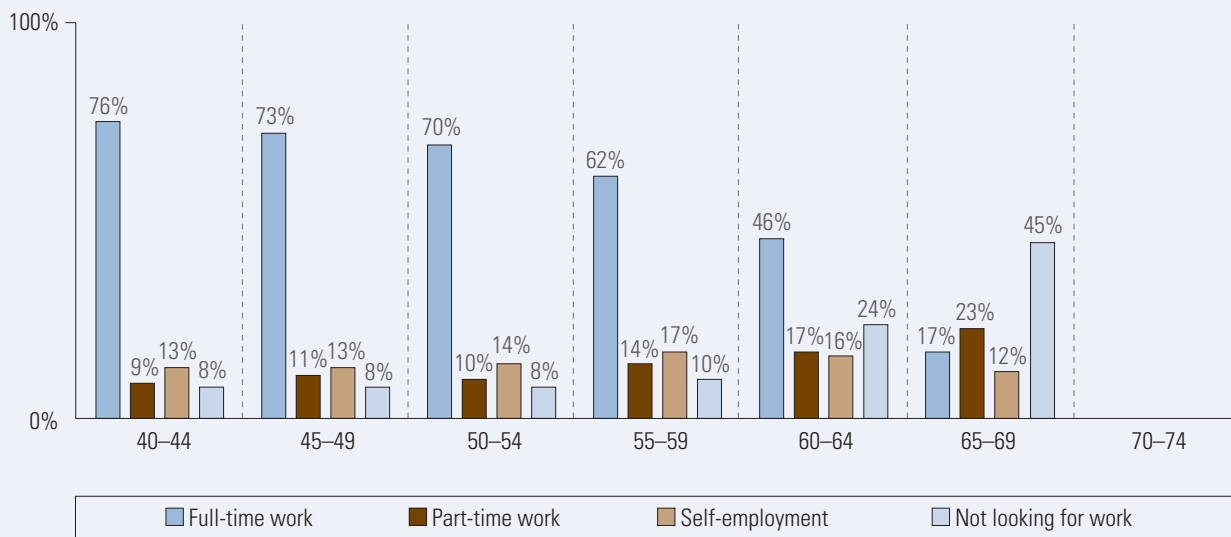
In our analysis of work histories, we separate actual history from expectations. Thus, a respondent’s past and current work history is in the “actual” group, while the respondent’s expected future history is in the “expectations” group.

### Overview of work patterns

At a high level, these work histories—both actual and expected—appear to support the conventional notion of retirement. As a group, our respondents report gradually withdrawing from full-time work in their 50s and then sharply reducing their full-time work in their 60s (**Figure 1**). In these actual work histories, most individuals are at full-time work in their 40s. By their late 50s, the rate of full-time work falls to 62%, and then to 46% for those in the first half of their 60s. It shifts to only 17% for those in the second half of their 60s.

**Figure 1. Actual Work Status by Age**

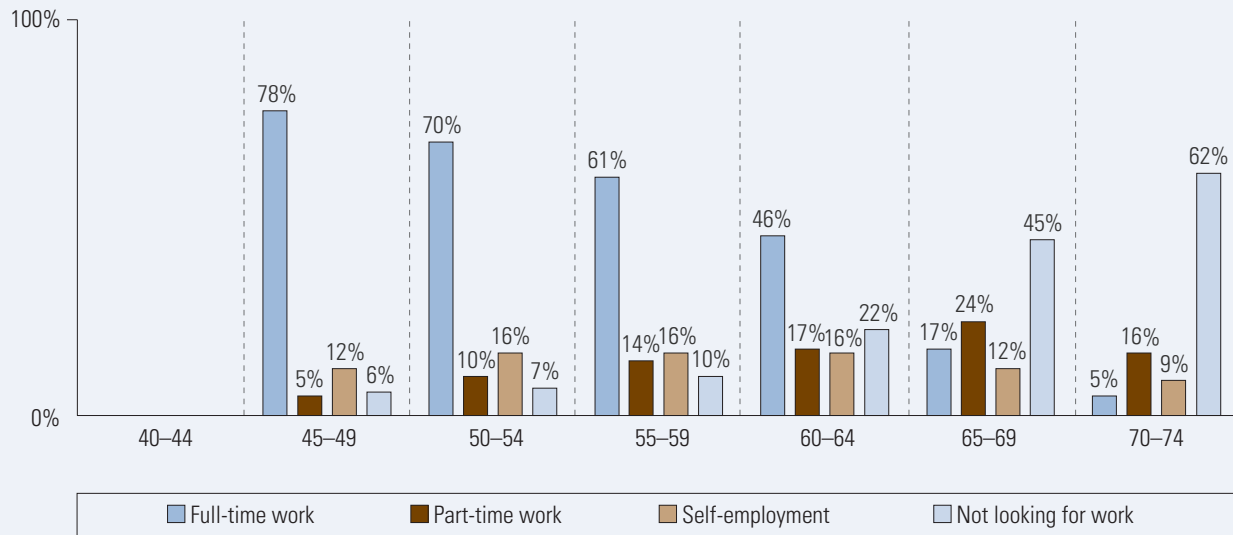
*Actual work status at various ages, individuals age 40–69*



Source: Vanguard, 2006.

**Figure 2. Expected Work Status by Age**

*Anticipated work status at various ages, individuals age 40–69*



Source: Vanguard, 2006.

Expected work histories are essentially the same (Figure 2). Those anticipating their future work status are, on average, predicting the same path that older individuals have already followed. From this data, our younger respondents do not appear to be anticipating a markedly different path than our older respondents.

But these findings deviate from conventional views of retirement in two important ways. First, the withdrawal from full-time work begins much earlier in life than typically assumed—for some, in their early 50s. Second, at older ages typically associated with retirement, work is still an important part of life. In the actual work histories (Figure 1), more than

half of those age 65 to 69 are working in some form. In the expected work histories (Figure 2), a similar fraction expect to be working at age 65 to 69, and 30% expect to be working in some fashion at age 70 to 74.

Two conclusions emerge from these results. The first is that changes in an individual’s relationship to work are not isolated to a narrow group of ages, such as the early 60s, as conventional models of retirement planning might suggest. The process begins as early as 50 for some, and continues for others until their early 70s.

The second finding is that expectations for the future are uncannily similar to actual or past work histories. Many older individuals have already been involved in some type of work at traditional retirement ages; many younger individuals expect to be as well. This suggests that the notion of a “new retirement” for the baby boom generation—involving both work and leisure—is actually not that new at all, but a continuation of past trends.

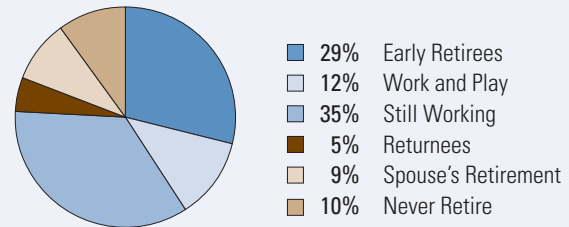
What may be new about retirement is not that work is involved—but the recognition that there are multiple paths to retirement.

### The six paths

Another way we examine work histories is through the lens of the word “retirement.” We asked respondents to indicate which of the following terms best described their current work or retirement status: still working and never retired; having retired but now returned to work; semiretired or partially retired; fully retired and not working; and other. The “other” category essentially captures any combination of work, nonwork, and retirement that did not fit into the preceding categories. We also separately asked those who were still working whether they expected to retire or whether they would continue to work indefinitely.

**Figure 3. Six Paths to Retirement**

*Individuals age 55–69*



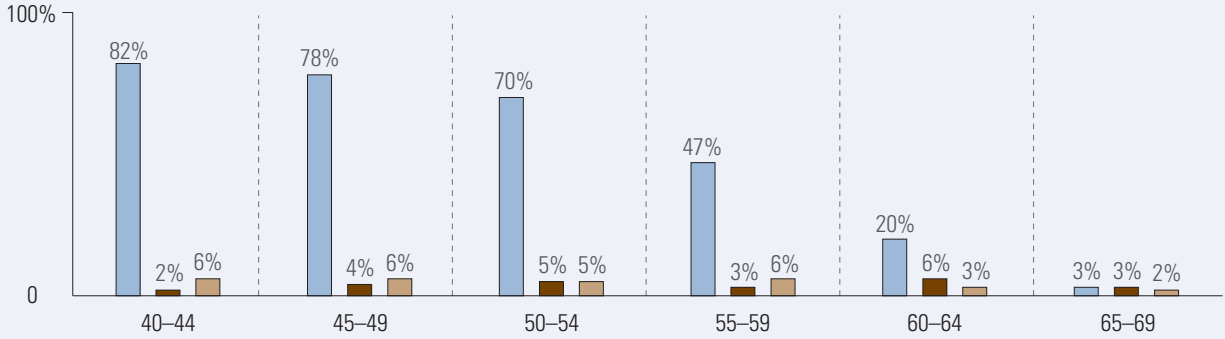
Source: Vanguard, 2006.

Combining this retirement classification with work histories for older Americans yields our six distinct paths to retirement (**Figure 3**). Three paths account for three-quarters of older Americans age 50 to 69: Early Retirees, Work and Play (the semiretired), and Still Working. The other one-quarter of older Americans were on the three remaining paths: Returnees, Spouse’s Retirement, and Never Retire.

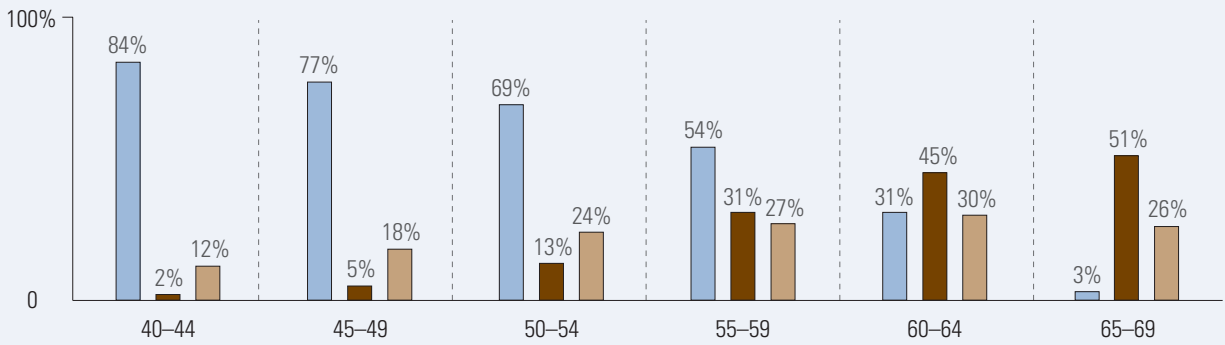
**Figure 4. Three Main Paths to Retirement**

*Actual work status, individuals age 55–69*

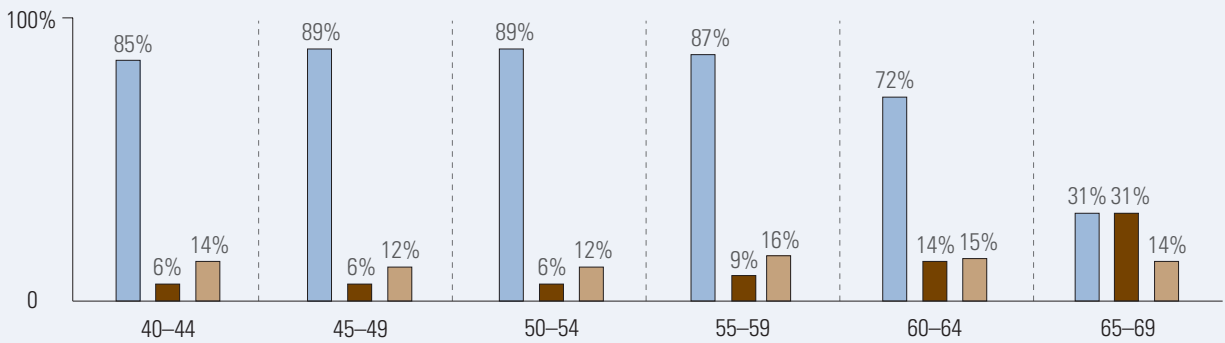
**Path 1: Early Retirees**



**Path 2: Work and Play**



**Path 3: Still Working**



Legend: Full-time work (blue), Part-time work (dark brown), Self-employment (tan)

Source: Vanguard, 2006.



The work histories for each path provide rich detail about the varying dynamics of work and retirement. For those respondents on the Early Retirees path (**Figure 4, top panel**), the level of full-time work falls dramatically in their late 50s. By the first half of their 60s, few are working full-time, and even fewer are working part-time or on a self-employed basis. Work levels are negligible in the second half of their 60s.

The Work and Play path (**Figure 4, middle panel**) represents another group of individuals who exit full-time work in their 50s, much like the Early Retirees. But in contrast, rather than exiting all work, the Work and Play respondents shift to part-time work and self-employment. Even in their late 60s, three-quarters are still engaged in some type of work, again mostly part-time work or self-employment.

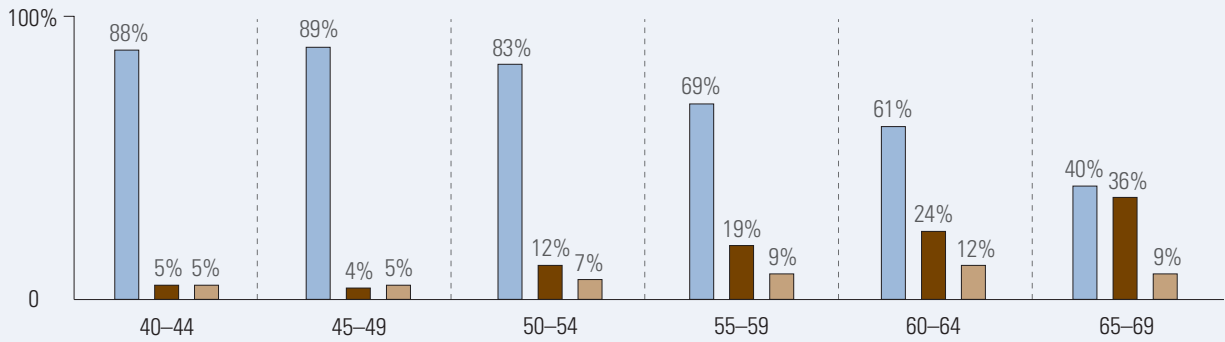
Taken together, the Early Retirees and Work and Play paths suggest an important trend among 4 in 10 Americans. They have largely exited full-time work in their 50s, moving to a period of either nonwork, part-time work, or self-employment.

For those on the Still Working path (**Figure 4, bottom panel**), full-time work continues even into the first half of their 60s. In some ways, individuals on this path mirror the conventional wisdom about retirement. Yet even when their involvement in full-time work falls later in their 60s, three-quarters are still working in some form—about 30% at full-time work, 30% at part-time work, and about 15% in self-employment.

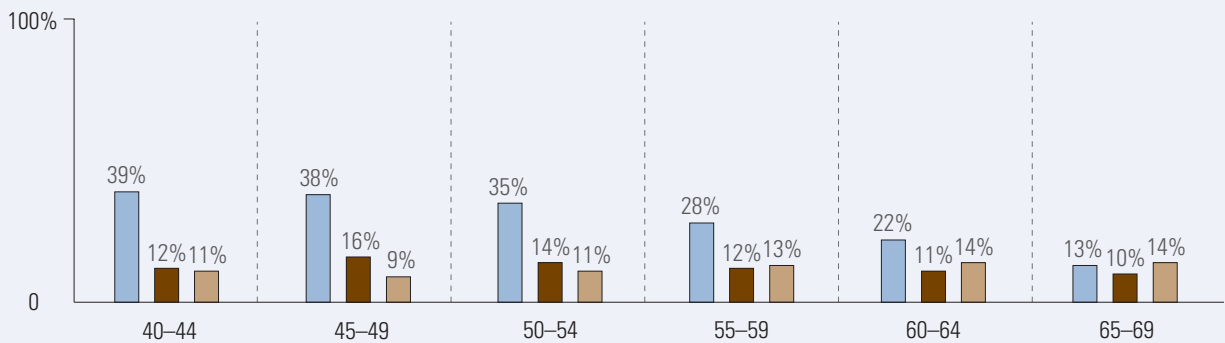
**Figure 5. Three Other Paths**

*Actual work status, individuals age 55–69*

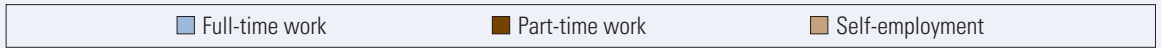
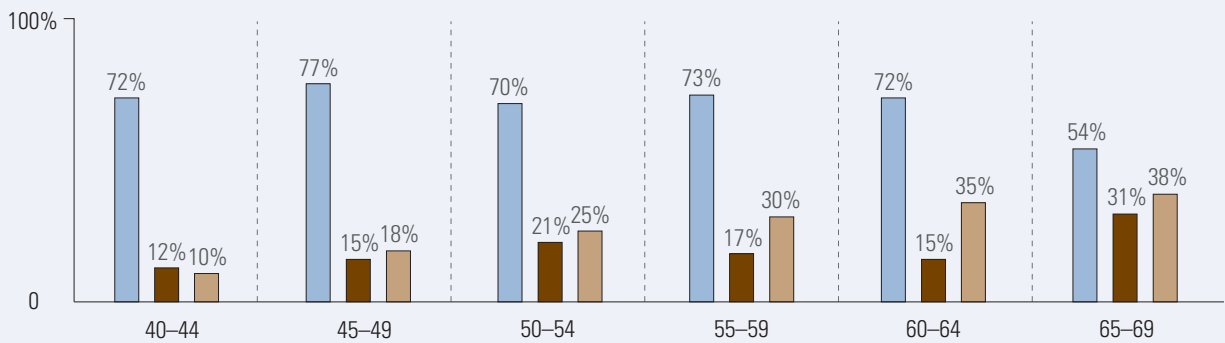
**Path 4: Returnees**



**Path 5: Spouse's Retirement**



**Path 6: Never Retire**



Source: Vanguard, 2006.

The three other paths offer interesting contrasts. Returnees (**Figure 5, top panel**) seem almost identical to the Still Working group. But what distinguishes Returnees is that its members specifically said that they retired at one point; however, realizing that retirement was either not financially feasible or psychologically desirable, they returned to work. In essence, they got off the Still Working path too early and returned to it a few years later.

Spouse's Retirement (**Figure 5, middle panel**) presents work histories of those who worked full-time at much lower levels than other groups in our survey. As we note later in our analysis of demographics, they are more likely to be married women with lower levels of participation in the full-time workforce.<sup>6</sup>

The Never Retire path (**Figure 5, bottom panel**) is notable on two levels. Respondents said they "never plan to retire." Not surprisingly, they maintain high levels of work throughout their 60s. That said, even among this group, there is a marked shift to part-time work or self-employment in the second half of their 60s. Thus, even those who plan to never retire are still changing their relationship to work as they grow older.

---

<sup>6</sup> It's important to note that this category, Spouse's Retirement, does not include all spouses or partners. Many will follow other paths, such as Early Retirees, Still Working, or Work and Play. What this category represents is a subset of spouses or partners who, as a group, have had lower levels of involvement with full-time work during their working years.

## The word “retirement”

Our findings suggest that the transition from work to retirement is not always an abrupt change from full-time work to full-time leisure. Many individuals make a transition among different types of work as they grow older. The end of work can come as early as one’s 50s, while others will still be working in one form or another into their 70s.

This idea is captured in how our respondents define the word “retirement.” We asked respondents to indicate whether retirement meant a period of no work, some work, both leisure and work, or just work. Not surprisingly, only 1% of respondents viewed retirement as a period exclusively devoted to work (Figure 6). Yet some 6 in 10 felt that retirement included some combination of work and leisure.

Also, individuals in their 40s were more likely to include work in their definition of retirement versus those in their 60s (65% versus 57%). This higher incidence among workers in their 40s may reflect a degree of overoptimism about their willingness to continue working later in life. It also may reflect a rising awareness of the importance of work in retirement.

These findings again reinforce the idea that the “new retirement” (a period combining work and leisure) is not so new, and instead it is a process that has been ongoing for many years.

**Figure 6. Meaning of the Word “Retirement”**

*Individuals age 40–69*

	By age of respondent			Total
	40–49	50–59	60–69	
Retirement is a period with . . .				
No work	35%	38%	43%	39%
Some work	30%	23%	23%	24%
Both leisure and work	34%	38%	33%	35%
Work	1%	1%	2%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Total “work” categories*</b>	<b>65%</b>	<b>62%</b>	<b>57%</b>	<b>61%</b>

\*Age 40–49 and 60–69 significantly different at a 5% level.

Source: Vanguard, 2006.

## Part II. Financial and other influences

One of the findings from the qualitative phase of our research was that many individuals made decisions about work and retirement in response to some external event.

One trigger cited by some in our focus groups was an “early-out” offer—a financial incentive for the employee to leave their current job before normal retirement age, typically at companies offering DB pension plans. Sometimes it was the presence of a DB plan or a DC lump sum that affected the change. In other cases, individuals cited their prior saving skill in making it possible to reduce their work schedule. Still others discussed the influence of health issues, positive or negative, or matters such as divorce in influencing their relationship to work at older ages.

There was a “good news/bad news” element in these retirement factors. Some were clearly benign—as in having good health or having accumulated sizeable benefits or savings. Others were clearly negative, as in having health problems or having to work to pay for basic expenses. But there were still others that could be viewed as both: an early-out offer could make it possible to finance an early retirement, or it might require an individual to return to work because of the lack of adequate resources.

Figure 7. Factors Influencing Retirement Path

Category	Variables	Description
Financial events	Early out	Received early-out offer from employer
	DB pension	Received a DB pension
	Lump sum	Took a retirement plan lump sum
	Retiree health	Received retiree health benefits
	Windfall	Received a windfall (e.g., sale of business, insurance settlement)
Savings habits	Retirement savings	Total savings for retirement in ranges: Less than \$25,000, \$25,000 to \$100,000, and so forth
	Savings success	Self-assessed ability at saving in the past—low, medium, or high
Health status	Health	Self-assessed health status at time of survey—poor, below-average, average, or excellent
Demographics	Age	Age of respondent
	Male	Indicator if respondent was male
	Income	2005 household income in ranges: Less than \$25,000, \$25,000 to \$50,000, and so forth
	Education	Self-categorized at high school or less, some college/associate’s degree, bachelor’s degree, or graduate-school/degree.
	Marital status	Married/partnered, single or divorced, widowed or separated

Source: Vanguard, 2006.

In this section, we describe our findings from statistical models that link a given path with various factors or triggers. These factors (Figure 7) include:

- *Financial events.* These consist of receiving an early-out offer, a DB pension, a lump-sum payment from a DC retirement plan, retiree health benefits, or any other type of windfall (e.g., inheritance, insurance proceeds).

- *Savings habits.* Measures of savings habits include the household's retirement savings as reported by the respondent, as well as the respondent's self-reported past savings ability.
- *Health status.* We also relate an individual's retirement path to their self-described health status.
- *Demographics.* The final factors include the respondent's age, gender, income, education, and marital status.

Our statistical models were estimated for all respondents age 55 to 69. This is the age range, according to our work histories, where the differences between the paths were more pronounced.

### Summary of results

For individuals hoping for an early retirement, like those on the Early Retirees or the Work and Play paths, our statistical modeling offers a simple message: Financial preparedness is the key. The following factors were associated with the Early Retirees path: a DB pension, a DC lump sum, aggregate savings of more than \$500,000, or average or excellent savings habits in the past. Having more than one of these factors increases the odds of being on the Early Retirees path.

Interestingly, it wasn't only a matter of finances. Early Retirees also included those in poor health or those with a high-school-or-less education, suggesting that poor health, or more routine or physically demanding work, also leads to early retirement.

Financial factors also figured prominently for those on the Work and Play path—the other group exiting full-time work in their 50s. Receiving a DB pension or DC lump sum were important factors that enabled flexibility at an early age. And for many on this path, semiretirement was more a matter of choice than financial necessity, as our findings on motivation suggest.

Those on the Still Working path had precisely the opposite set of influences. Lack of financial resources is a key theme. Not having a DB plan or a DC lump sum is associated with being on this path, as is having less than \$250,000 in total retirement savings. Individuals on this path were more likely to receive an early-out offer from their employer—but that offer did not necessarily lead them to exit work, just to continue work in a different form.

Good health and higher levels of education enable individuals to work later in life, just as health problems and lower levels of education led to early retirement. Individuals with average or above-average health were more likely to be on the Still Working path. And better-educated individuals were more likely to be on this path, as were more women. But divorce, widowhood, or separation also contributed to being on this path.

Surprisingly, we found gender differences distinguished two of our paths—Returnees and Spouse's Retirement. Returnees—those retiring, and then returning to work—were more likely to be male, with a DB pension, but with poor savings habits. Divorce, widowhood, or separation also raised the odds of being on the Returnee path. But a Returnee also needed to be in reasonably good health in order to return to work.

By contrast, those on the Spouse's Retirement path were more likely to be married, female, and in excellent health. From the work histories earlier, they had a much lower commitment to full-time work in their 40s and 50s. They also were a group that felt they could not classify themselves as either working, semiretired, retired, or a returnee to work, but they had some other notion of their relationship to work. In this way, they represent only a subgroup of all the spouses or partners in our respondent base.

**Figure 8. Summary of the Six Paths**

*Individuals age 55–69*

Path	Work history	Percentage of individuals age 55–69	Financial, savings, and health factors	Demographics
<b>1. Early Retirees</b>	Full-time work to full-time leisure in your 50s.	29%	DB pension. DC lump sum. More than \$500,000 in savings. Average or excellent past savings habits. Poor or below-average health.	High-school-or-less education. Single. Not divorced, widowed, separated. Income less than \$50,000 and not above \$100,000.
<b>2. Work and Play</b>	Shift to part-time and self-employment in your 50s.	12%	DB pension or DC lump sum.	Being divorced, widowed, or separated. Otherwise similar.
<b>3. Still Working</b>	Shift out of full-time work deferred until your mid- to late 60s; continuing with part-time and self-employment in your 60s.	35%	Not having DB pension or DC lump sum. Early-out offer. Savings more likely between \$25,000 and \$250,000. Not having poor or below-average health.	Being female. Better-than-high-school education. Divorced, widowed, or separated. Incomes less likely below \$50,000 and more likely above \$100,000.
<b>4. Returnees</b>	Retired early, often in your 50s, then returned to some type of work.	5%	DB pension. Low savings in the past. Average but not below-average health.	Being male. Being divorced, widowed, or separated. Otherwise similar.
<b>5. Spouse’s Retirement</b>	Lower levels of full-time work and total work in 40s and 50s.	9%	Not having an early-out offer. Excellent health.	Being female. Being married. Having income below \$50,000.
<b>6. Never Retire</b>	High levels of full-time and other work through 60s.	10%	DC lump sum. Excellent health.	Similar to rest of population.

Note: These are the factors that distinguish each of the paths. If a given factor is not noted, it means that for the factor, individuals on a given path are generally similar to the rest of the age 55–69 population.

Source: Vanguard, 2006.

Finally, the Never Retire group was not particularly distinctive in terms of financial, health, or other demographic variables. In that way, this group was similar to other individuals at similar ages. What

distinguished this group above all was its ongoing interest in work, which we discuss in more detail in our discussion of motivations.

**Figure 9. Motivation for Early Retirees**

*Individuals age 50–69*

**Age stopped work entirely (median) 55.0**

**Top five ages for stopping work**

1st	50	29%
2nd	60	11%
3rd	51	10%
4th	55	10%
5th	54	5%

**My motivation for stopping work\***

Retired from old job	52%
Wanted to stop working	32%
Wanted more free time	25%
Had health problems, became disabled	23%
Was laid off from old job	14%
Didn't like old job	10%
Took on volunteer/unpaid work	5%
Was caregiver for other	1%

**Spouse/partner motivation\***

He/she had health problems, became disabled	5%
He/she retired from job	4%
He/she wanted more free time	3%
He/she died	1%
He/she was laid off, lost his/her job	0%

**Amount of planning**

Planned at least six months in advance	40%
Planned less than six months	15%
Made change without a lot of planning	45%
	<b>100%</b>

\*Multiple responses allowed.

Source: Vanguard, 2006.

**Motivations**

For four of the paths—Early Retirees, Work and Play, Returnees, and Never Retire—we sought to understand the motivation behind either stopping work, in the case of Early Retirees, or continuing to work later in life, in the case of the other three paths.

Those on the Early Retirees path stopped work at a median age of 55, though the top five ages for stopping work varied from 50 to 60 (Figure 9). For these individuals, the biggest motivation for stopping work was retiring (52%), wanting to stop working (32%), and wanting more free time (25%). But poor health and disability were important for some (23%). For those with a spouse or partner, the spouse's or partner's health was also the top reason for stopping work, but that was only true for a small percentage (5%).

Among the Work and Play respondents, positive motivations dominated their reasons for continuing to work (Figure 10). Being active (66%), wanting extra spending money (62%), and liking the type of work (55%) were the top three reasons. A smaller percentage, about a third, cited needing money to meet basic expenses, and 16% needed to pay for health insurance.



Among Returnees, the typical respondent stopped work early, at age 52, and then returned to work three years later. The two principal reasons for returning to work were a desire to be active (58%) and liking the type of work (56%) (Figure 10). One key difference between the Returnees and Work and Play groups was the focus on financial necessities. More than half of Returnees said they returned to work to meet basic expenses, while 25% needed to pay for health insurance. Clearly, one of the reasons for returning to work was premature retirement, either from a financial, emotional, or social point of view.

For the Never Retire group, what was striking was the overwhelming emphasis on the value of work: either they like being active (71%) or they like the type of work (69%). Compared with others, social interaction at work and a regular work schedule also were rated more highly. Yet what was equally unique about this group was a focus by many on financial necessity: needing money to pay basic expenses (58%) or to pay for health insurance (34%). For many in this group, never retiring is based on a strong preference for work. At the same time, for some, the financial constraints are critical.

**Figure 10. Motivation for Continuing to Work**

*Individuals age 55–59*

	Work and Play	Returnees	Never Retire
<b>My motivation for continuing/returning to work*</b>			
<b>Emotional/social</b>			
Like being active	66%	58%	71%
Like type of work I'm doing	55%	56%	69%
Like social interaction	37%	39%	43%
Like regular work schedule	20%	30%	34%
<b>Financial</b>			
Wanted extra spending money	62%	53%	41%
Meet basic expenses	32%	52%	58%
Pay for health insurance	16%	25%	34%

\*Multiple responses allowed.

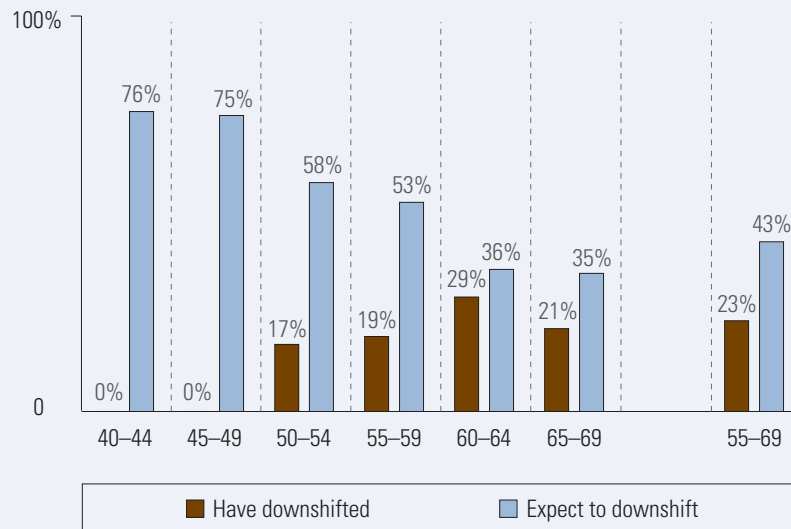
Source: Vanguard, 2006.

Note: Only includes first return to work (2nd age for return to work had only 26 respondents).

## Part III. Downshifting

Figure 11. Downshifting—Actual and Expected

Individuals age 40–69



Source: Vanguard, 2006.

### Overview of downshifting

Among older Americans age 55 to 69, 23% have already downshifted and another 43% hope to do so in the future (Figure 11). Actual downshifting appears to reach its peak in the first half of the 60s among nearly 3 in 10 individuals. It is clearly a meaningful phenomenon at older ages, although only a minority of individuals has made a downshifting change.

The demand for downshifting in the future is substantially higher. For Americans in their 40s, three-quarters hope to downshift in the future. That said, expectations for downshifting appear to be much higher than actual downshifting. Downshifting requires not only the desire on behalf of the employee,

One of the most important changes in an individual's relationship to work is the phenomenon we define as "downshifting"—a decision to reduce hours worked or to shift to a simpler or less stressful job.

We asked older respondents whether they had at any point reduced the number of hours they worked, changed to an easier or less stressful type of work, or made the two changes in tandem. We also asked our entire sample whether they anticipated downshifting in the future.

In this section, we consider in detail the phenomenon of downshifting.

but also the ability to negotiate a flexible work arrangement with a willing employer. Perhaps the high level of desired downshifting among midcareer workers will not be realized in the future. But the findings do underscore the strong interest of workers at all ages to have a flexible transition from work to retirement.

The actual use and future demand for downshifting varies across our six retirement paths (Figure 12). Two paths are large users of downshifting—Work and Play and Returnees. Sixty percent of Work and Play individuals have already downshifted as part of their transition to retirement, and three-quarters of

them expect an additional level of downshifting in the future. These results are consistent with work histories: Most Work and Play respondents move from full-time work to part-time work or self-employment in their 50s. Many Returnees were also large users of downshifting and expected to do so in the future.

Those on three paths—Still Working, Spouse’s Retirement, and Never Retire—have not downshifted much so far, but many more expect to do so in the future. Meanwhile, among the Early Retirees, nearly one-fifth downshifted, but future plans to downshift are low (2%). This makes sense, given that most Early Retirees have completely exited the workforce.

### Actual downshiffters

Among those who actually downshifted, the more prevalent approach is to reduce hours, followed by shifting to a less stressful or easier job (Figure 13). The first transition occurred at a median age of 54. The five most popular ages for downshifting within this group were the years of the early 50s.

Figure 12. Downshifting and the Six Paths

Individuals age 55–69

Path	Category	Percentage actual downshiffters*	Percentage future downshiffters*
<b>Average—all paths</b>		<b>23%</b>	<b>43%</b>
1. Early Retirees	Low	19%	2%
2. Work and Play	High	60%	74%
3. Still Working	Medium	15%	53%
4. Returnees	High	43%	60%
5. Spouse’s Retirement	Medium	15%	50%**
6. Never Retire	Medium	19%	40%

\*Percentage on a given path who downshifted or hope to do so in the future.

\*\*Among a small percentage still working.

Source: Vanguard, 2006.

Figure 13. Downshifting Overview

Actual downshiffters age 50–69

#### Type of change

Reduced hours	42%
Easier/simpler job	36%
Both	22%
<b>Total</b>	<b>100%</b>

	First downshift	Second downshift
Median age	54	58

#### Top five ages for downshifting

1st	50	29%	60	14%
2nd	55	14%	50	12%
3rd	52	9%	55	10%
4th	51	6%	65	7%
5th	53	6%	62	6%

Source: Vanguard, 2006.

**Figure 14. Downshifting and Work**

*Actual downshifter age 50–69*

**Employer**

Same employer	34%
New employer	49%
Own business	17%
	<b>100%</b>

**Type of work**

Same or similar to old work	48%
Substantially different than old work	52%
	<b>100%</b>

Note: First downshifting event only.

Source: Vanguard, 2006.

About 40% actually downshifted twice. The median age for this second change was 58, and the five most popular ages for the transition varied from 55 to 65. Though not shown here, individuals in this same age group who hope to downshift in the future expect to do so later in life, largely in their 60s. Also among this latter group, two-thirds expect to reduce hours as their only downshifting strategy.

How does work change when individuals downshift? According to downshifter, slightly more than one-third stayed with their existing employer (**Figure 14**), nearly half moved to a new employer, and 17% shifted to self-employment. In effect, about two-

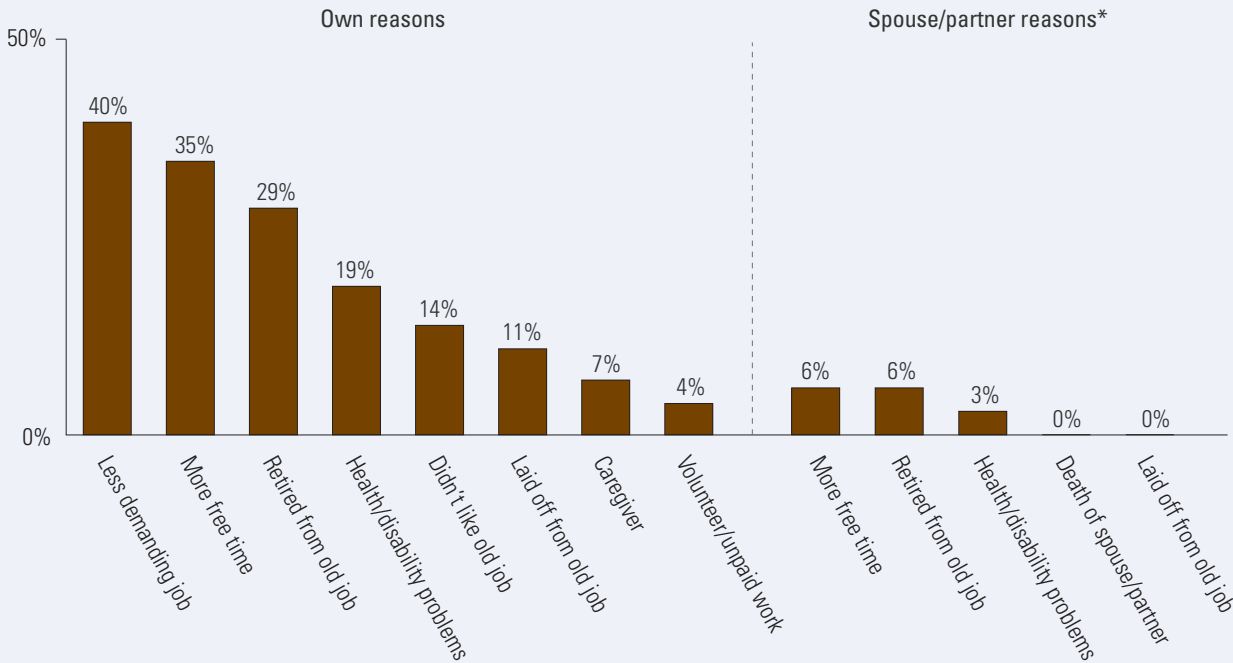
thirds left their old employer when they downshifted. Just less than half stayed in the same or similar line of work, while a little more than half moved to a substantially different line of work. Prospective downshifter (not shown here) were more likely to want to remain with their current employers and stay in the same line of work.

The top two motivations for downshifting were not surprising given the way we defined downshifting: 40% cited the desire for a less demanding job and 35% indicated the desire for more free time (**Figure 15**). The third motivation for downshifting, retired from old job, cited by 29%, could reflect either personal choice or involuntary retirement. Because we asked separately about being laid off from work, this response probably better reflects a voluntary retirement decision. The more negative reasons were cited by a lower percentage of respondents, though they were somewhat sizeable: health problems (19%), didn't like old job (14%), laid off from old job (11%), and had to act as a caregiver (7%).

A similar pattern emerges with spouse or partner motivations, although these are at much lower levels. The top two were that the spouse wanted more free time or had retired (6% each). As with our earlier findings on motivations for working at older ages, a small percentage (3%) cited health and disability problems of the spouse as a reason for downshifting.

**Figure 15. Motivation for Downshifting**

*Actual downshiffters age 50–69, multiple responses allowed*



\*For those respondents who were married or who had a partner.

Source: Vanguard, 2006.

From our study, we found that downshifting generally leads to a lower income (Figure 16). Two-thirds of respondents indicated their take-home pay was lower, and more than half said they received reduced benefits (23%) or no benefits at all (31%) in their new job. At the same time, downshifting for some doesn't necessarily mean a loss of income or benefits. Three in 10 saw their income stay the same or rise, while 46% noted that their benefits were the same or better.

**Figure 16. Downshifting Pay and Benefits**

*Actual downshiffters age 50–69*

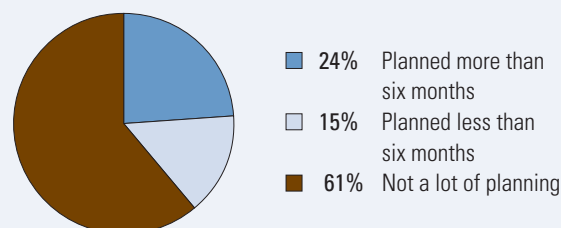
	Pay	Benefits
About the same	17%	37%
Higher	13%	9%
Lower	67%	23%
Unpaid job/no benefits	3%	31%
	<b>100%</b>	<b>100%</b>

Note: Total pay is after taxes.

Source: Vanguard, 2006.

**Figure 17. Downshifting and Planning**

*Actual downshiffters age 50–69*



Source: Vanguard, 2006.

A striking finding is the relatively low amount of planning that went into the downshifting decision (Figure 17). Sixty-one percent of downshiffters indicated they hadn't done a lot of planning in making the decision. At the other extreme, 24% had indicated they planned the move for more than six months.

### Implications

Our findings suggest that the transition from work to retirement is more varied than is often assumed. An analysis of work histories suggests that older Americans follow six distinct paths as they approach traditional retirement ages. About 4 in 10 Americans exit the full-time workforce early, mostly in their 50s, with some never working again and others shifting to some form of semiretirement. Just more than one-third continue to work full-time steadily into their 60s and then, as they exit full-time work, shift to part-time work or self-employment. Another quarter of Americans follow less common paths—including 1 in 10 who plan to never retire.

Depending on the path being followed, retirement for a given individual can include full-time or part-time work, self-employment, or a return to work, as well as no work at all. As part of the transition to retirement, downshifting is a prevalent strategy among older individuals. For both midcareer and older Americans, the demand for downshifting in the future is even higher than the actual rate of downshifting reported in our study.

The U.S. workforce is aging in tandem with the baby boom generation. For employers, our results suggest the importance of implementing flexible work arrangements to attract and retain older workers. If, as some suggest, the retirement of baby boomers will lead to a worker shortage, one response by employers will be to increase efforts to retain older workers. According to our findings, employers should consider designing working arrangements that appeal to those in a transitional state between full-time work and full-time retirement.

In recent years, policymakers and plan sponsors have focused on the notion of phased retirement—allowing workers to begin tapping their retirement savings and benefits in qualified retirement programs, while continuing to work for the same employer. Our results underscore the importance of this effort. More than two-thirds of our downshiffters changed employers or shifted to self-employment. Without a doubt, we believe that a portion of this group was inhibited from retaining ties to their old employer because of the need to access retirement benefits and savings.

For financial advisors, our findings suggest a more complex model for financial planning and retirement decision-making. Those who retire in their 50s will need to finance much longer periods of retirement than conventionally assumed. Meanwhile, individuals on the other paths will be supplementing their benefits programs and savings with income from work. Therefore, advisors will need to tailor advice to these different individuals.

For many individuals, it seems clear that the notion of retirement has already been redefined. It will include some measure of work for 6 in 10 Americans, at least in the early years of retirement. For baby boomers short on retirement savings but still in reasonably good health, work earnings can help narrow any financial deficit. Indeed, as noted by our findings on those who retired and then returned to work, one of the important risks facing older Americans is the risk of retiring too early—a risk that can have both financial and psychological consequences.

As the first members of the baby boom generation reach age 60, there is a growing interest in retirement as a period of relaxation, enjoyment, and reinvention. Yet with longer life expectancies and with a desire for a better standard of living in retirement than their parents, there is also a dawning recognition that retirement, especially in the early years, will not be a period of full-time leisure—but a time of leisure and, for many, work.

## References

Friedberg, Leora and Anthony Webb. 2003. "Retirement and the Evolution of Pension Structure." NBER Working Paper 9999. National Bureau of Economic Research, Cambridge, MA. [www.nber.org](http://www.nber.org).

Munnell, Alicia H., Marric Buessing, Mauricio Soto, and Steven A. Sass. 2006. "Will We Have to Work Forever?" Work Opportunities for Older Americans. Series 4. July. Center for Retirement Research at Boston College. Chestnut Hill, MA.

Pension Research Council. 2006. "Transitioning to Retirement: How Will Boomers Fare?" Wharton PRC Working Paper 2006-7. The Wharton School of the University of Pennsylvania. Philadelphia, PA. <http://www.pensionresearchcouncil.org/publications/document.php?file=237>.

Social Security Administration. 2004. *Income of the Aged Chartbook, 2002*. Social Security Administration, Washington, D.C. 2002. [http://www.ssa.gov/policy/docs/chartbooks/income\\_aged/2002/iac02.pdf](http://www.ssa.gov/policy/docs/chartbooks/income_aged/2002/iac02.pdf).

## Appendix I.

A description of our survey methodology can be found in the main body of the text. Summary statistics on the survey respondents can be found in the accompanying table (Figure 18).

Figure 18. Demographics of Survey Respondents

Individuals age 40–69 (n=2,474)

### Age and gender

Median age	52
Median age of spouse/partner	54
Male	52%
Female	48%

### Marital status

Married/partnered	68%
Single, never married	12%
Divorced, widowed, or separated	20%
<b>Total</b>	<b>100%</b>

### Education

High school or less	24%
Some college, no degree	29%
Associate's degree	10%
College degree or greater	37%
<b>Total</b>	<b>100%</b>

### Work/retirement status

Currently working—never retired	63%
Currently working—retired in the past	3%
Partially/semiretired	6%
Retired and not working	14%
Other	14%
<b>Total</b>	<b>100%</b>

Source: Vanguard, 2006.

### 2005 household income

Less than \$25,000	16%
\$25,000–\$49,999	23%
\$50,000–\$74,999	22%
\$75,000–\$99,999	15%
\$100,000–\$149,999	17%
\$150,000 and more	7%
<b>Total</b>	<b>100%</b>

### Retirement savings

Less than \$25,000	30%
\$25,000–\$49,999	10%
\$50,000–\$99,999	15%
\$75,000–\$249,999	18%
\$250,000–\$499,999	13%
\$500,000 and more	14%
<b>Total</b>	<b>100%</b>

### Other

Homeowner	84%
Median home equity	\$100,000



## Appendix II. Regression analysis

The factors associated with each retirement path are based on six logistic regressions of the following form:

*Work/retirement status = f (financial events, savings habits, health status, other demographic variables)*

Work/retirement status is a dummy variable indicating whether the respondent, respectively, was fully retired, partially retired, retired and then returned to work, still working and planned to retire, still working and never planned to retire, or in another transitional state. These variables, in conjunction with the work histories, define the six paths.

To make relative comparisons across the regression results, we show marginal effects relative to the dependent variable mean for financial, savings, and health characteristics (**Figure 19 on page 26**) and other demographic factors (**Figure 20 on page 27**).

For example, 29% of Americans age 55–69 are on the Early Retirees path (**Figure 19**). The relative marginal effect of having a DB pension reported in the table is 56%. That means that the probability of having a DB plan and being on the Early Retirees path is not 29%, but 45%—a 56% increase.

The regressions were estimated for survey respondents age 55–69. Regression coefficients, significance levels, and sample sizes are available from the authors.

**Figure 19. Financial, Savings, and Health Characteristics**

*Relative increase in probability of being on a given path for a given factor, individuals age 55–69*

Example: There is a 29% chance of being on path 1. Having a DB pension raises that by 56% to 45% (29% x 1.56).

	1. Early Retirees	2. Work and Play	3. Still Working	4. Never Retire	5. Returnees	6. Spouse's Retirement
<b>Percentage individuals age 55–69</b>	29%	12%	35%	10%	5%	9%
<b>Financial events</b>						
Early-out offer			60%**			–39%**
DB pension	56%***	52%**	–137%*		53%***	
DC lump sum	31%**	48%**	–140%*	180%**		
<b>Retirement savings</b>						
Less than \$25,000			–154%***			
\$25,000–\$100,000						
\$100,000–\$250,000	(reference)	(reference)	(reference)			
\$250,000–\$500,000			–66%**			
More than \$500,000	85%***		–86%***	–150%*		
<b>Past savings ability</b>						
Low	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
Medium	39%**				–67%***	
High	56%***				–64%**	
<b>Health</b>						
Poor	89%***		–254%***			
Below average	60%***		–57%**		–53%*	
Average	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
Excellent			–57%**	89%**		41%***

Significance levels: \*\*\* (1%), \*\* (5%) and \* (10%).

Note: Results are derived from logit regression models; see text for details. “Reference” represents the excluded category for class variables coded as 1/0 dummies.

Source: Vanguard, 2006.

## Figure 20. Other Demographic Characteristics

Relative increase in probability of being on a given path for a given factor, individuals age 55–69

Example: There is a 45% chance of being on path 2. Being male lowers that by 38% to 28% (45% x 0.62).

	1. Early Retirees	2. Work and Play	3. Still Working	4. Never Retire	5. Returnees	6. Spouse's Retirement
<b>Percentage individuals age 55–69</b>	29%	12%	35%	10%	5%	9%
<b>Age and gender</b>						
Age (five years)	28%***	43%***	–57%***			
Male			–43%**		42%***	–29%**
<b>Education</b>						
High school or less	55%***	–53%**	–74%***			
Some college/associate's						
College	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
Graduate school/degree						
<b>Marital status</b>						
Married/partnered	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
Single	35%*					–174%*
Divorced, widowed, or separated	–35%***	44%**	37%*		53%***	–92%***
<b>Homeowner</b>						
						–60%***
<b>Income</b>						
Less than \$25,000	94%***		–154%***			67%***
\$25,000–\$50,000	37%***		–46%**		–59%**	34%**
\$50,000–\$100,000	(reference)	(reference)	(reference)	(reference)	(reference)	(reference)
\$100,000–\$150,000	–64%***		83%***			
More than \$150,000	–104%***		91%***			

Significance levels: \*\*\* (1%), \*\* (5%) and \* (10%).

Note: Results are derived from logit regression models; see text for details. "Reference" represents the excluded category for class variables coded as 1/0 dummies.

Source: Vanguard, 2006.



Vanguard Institutional  
Investor Group

P.O. Box 2900  
Valley Forge, PA 19482-2900

**Connect with Vanguard™** > [www.vanguardretirementresearch.com](http://www.vanguardretirementresearch.com) > [vcrr@vanguard.com](mailto:vcrr@vanguard.com)

**Contributors**

Samuel Atlee  
Suzanne Cionci  
John Friel  
Susan Wilson

*Vanguard*, *Connect with Vanguard*, and the ship logo are trademarks of The Vanguard Group, Inc. All other marks are the exclusive property of their respective owners.

Data for this survey were collected by Harris Interactive, Inc., on behalf of Vanguard. Harris Interactive was responsible for collecting the online data, and Vanguard was responsible for survey design, data weighting, data analysis, and reporting.