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Retire at 65 ... Or Not?

Your assets matter more than your age

Isn't 65 the traditional retirement age?

Perhaps, but baby boomers are modifying the definition of a traditional retirement (if not redefining it altogether). The Social Security Administration has subtly revised its definition of the traditional retirement age as well.

If you glance at the SSA website, the "full" retirement age for Americans born from 1943-1954 is 66, and it is 67 for those born in 1960 and later. (The "full" retirement age increases gradually from 66 to 67 for those born during the years 1955-1959.)¹

When Social Security started, the national retirement age was set at 65. In 1940, a 21-year-old American man had a 54% chance of living another 44 years (according to the federal government's actuarial estimates). By 1990, that chance had improved to 72%. For 21-year-old women, the probability of reaching age 65 increased from 61% to 84% in that same time frame. Americans also began living longer after 65. Increased longevity led to financial dilemmas for Social Security and the necessary redefinition of "traditional" retirement age.²

What do you lose by retiring at 65? The financial opportunity cost is considerable, and maybe greater than some baby boomers realize. If your full retirement age is 67, you'll reduce your monthly Social Security income by around 13.3% if you start taking benefits at age 65. Moreover, for every year that you refrain from claiming Social Security until age 70, your Social Security benefits will rise by 8%.^{1,3}

In addition to trimming your long-term retirement benefits, you may also forfeit some salary. If you are still working at age 65, you might be at or near your peak earnings level, and if that is the case, Social Security income may pale in comparison.

Think of life after 65 as your "third act" that needs funding.

Do you think of 65 as late middle age? It may be. As the SSA website notes, about 25% of today's 65-year-olds should live to age 90. About 10% of them should reach age 95. Even if that doesn't happen for you, you should know that the average 65-year-old today can expect to live into his or her mid-eighties.⁴

Let those statistics serve as a flashing red light, illuminating two new truths of seniority. The first truth: for many Americans, "retirement" will represent 10, 20 or even 30 years of activity and opportunities. The second truth: to stay active and pursue those opportunities, retirees will need 10, 20 or 30 years of financial stability.

Most Americans haven't amassed the equivalent 10, 20 or 30 years of retirement savings. Many want to "stay in the game" a little longer: a 2013 Gallup poll found that 37% of Americans expect to retire after age 65, compared with 14% in 1995.⁵

How many Americans can work full-time until age 65? The bad news is that according to the same Gallup poll, the average retirement age in America is 61. The good news is that it was 57 in 1991. Assuming we keep living longer and healthier, it seems plausible that the average age of retirement might hit 65 – if not for the boomers, then for Gen Xers.⁵

Regardless of when baby boomers retire, growth investing will continue to have merit. Even moderate inflation erodes purchasing power over time, and its effects can be felt in less than a decade. Who knows: the portfolios held by 65- and 70-year-olds in 2035 might look more like the ones they hold now instead of those held by their parent's generations before.

When should you retire? If that question is on your mind to any degree, consider an evaluation of your retirement readiness – a review of what you have, an estimation of what you need and a clear look at the possibilities before you. It should be time well spent.

Citations.

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