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Spelts Wealth Management

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How Americans are saving for retirement

Recent estimates indicate that the Social Security Trust Fund will run out of its surplus in 2034. Once this occurs, program payouts are expected to be worth only about 77 percent of current benefits. Unfortunately, one-third of retirees rely on social security payments for at least 90 percent of their retirement income. With social security payouts likely headed for significant reduction, contributing to self-directed retirement accounts is more crucial than ever. Just how are Americans doing when it comes to saving for their future?

How America saves

According to a TransAmerica Center survey, the typical American expects to retire at 67 but actually ends up retiring five years earlier than anticipated. A shortened career means less time for earning and saving, as well as more time spent withdrawing from accounts. This further emphasizes how saving for retirement is even more crucial than some Americans might assume.

To understand how America saves for retirement, let's examine savings patterns by various cohorts.
The following information is taken from "The State of American Retirement" report by the Economic Policy Institute.

Age	Average saved for retirement	Median saved for retirement
56-61	$163,577	$17,000
50-55	$124,831	$8,000
44-49	$81,347	$6,200
38-43	$62,270	$4,200
32-37	$31,644	$480

Education level (families age 32-61, with retirement savings)	Median saved for retirement
College degree or more	$95,000
Some college	$46,900
High school diploma or GED	$30,000
No high school diploma or GED	$14,700

Marital status (age 32-61, with retirement savings)	Median saved for retirement
Married or living with partner	$78,000
Single men	$34,000
Single women	$30,000

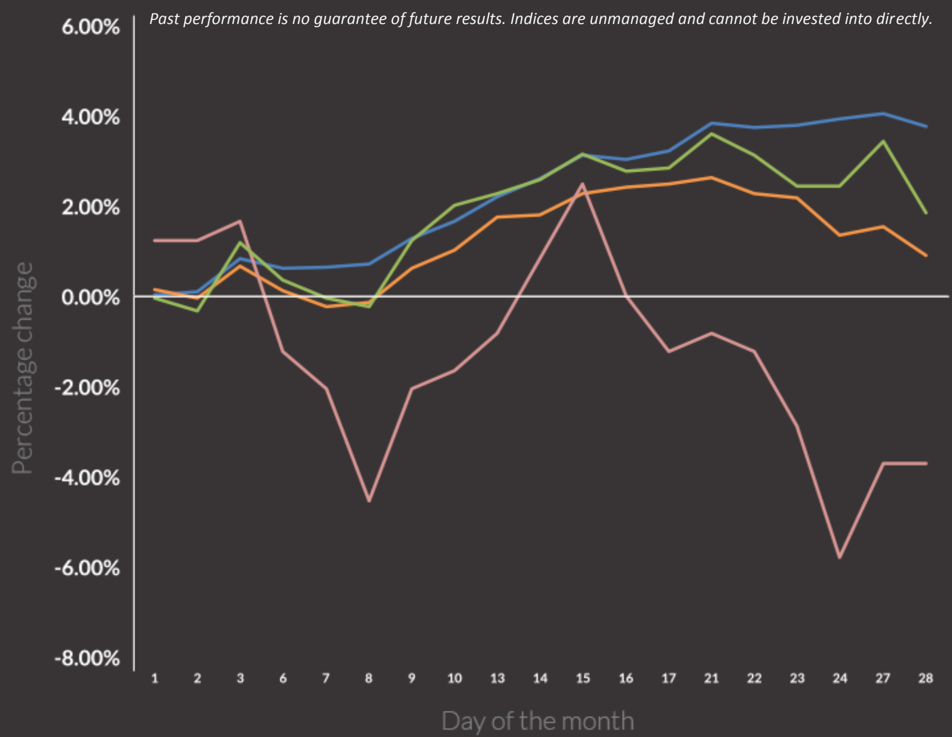
the market at a glance
FEBRUARY

U.S. Large Cap
(S&P 500)
2,363.64 (3.72%) ▲

U.S. Mid/Small
(Russell 2000)
1,386.68 (1.83 %) ▲

International Large
(NYSE International 100)
5,073.47 (0.89%) ▲

U.S. Treasuries
(U.S. 10-Year Treasury Yield Rate)
2.36 (-3.67%) ▼



The market in action

- A study by Ipsos surveyed respondents from various countries on whether they thought their country was headed in the right direction in 2017. Of the countries represented, Peru had the highest level of optimism; France had the lowest.
- Total household debt in the United States climbed to its highest level in nearly a decade. The New York Fed projects that household debt will reach a new all-time high in 2017.
- The New York Fed released a report that the average amount of student debt per household has doubled since 2008, which was by far the largest such relative increase among all forms of household debt.
- China’s foreign exchange reserves fell below $3 trillion in January, marking the first such time this has happened in about six years. Not only did this outpace estimates by economists polled by Reuters, but it follows a $320 billion decrease in 2016 and a $513 billion dollar drop in 2015.
- A report from Fidelity indicated that retirement savers are doing nearly better than ever. The average Fidelity IRA is worth about $93,700 while the average Fidelity 401(k) has a balance of $92,500. Additionally, the percentage of 401(k) savers has reached a seven-year high.
- According to Business Insider, an estimated 10 million self-driving cars will be on the road by 2020.
- In a report released by Reuters, unemployment claims in early February hit a 43-year low. This further demonstrates the job market essentially maintaining full-employment, as the unemployment rate has remained below 5 percent since May 2016.
- First Trust recently gathered data on the historical performance of bear and bull markets. Since 1926, the average bull market lasted nearly 9 years, resulting in a 490 percent total return. Over the same time frame, bear markets last an average of 1.3 years and suffer a cumulative 41 percent loss. It’s important to note, however, that past performance does not guarantee future results.

Going public: inside IPOs

Following months of speculation, Snap Inc., the makers of Snapchat, officially went public in early March. Snap Inc. was originally privately-owned with limited investors, but they are now opening up their business to public investors by initiating an issuance of stock. Let's dive into the process of initiating an IPO, how it works, a brief history of IPOs and terms relating to when a company "goes public."

Defining "IPO"

An IPO—sometimes referred to as a "stock market launch"—is when a private company is made available for ownership by public investors. Typically, an IPO refers to the first time a company goes public (though a company can "go public" more than once). The most common type of company to initiate an IPO is a young, small company looking to expand by obtaining additional capital from a broader range of investors.

Filing for an IPO

The first step of filing an IPO is when a private company has an external team initiate the process. The IPO team consists of underwriters, accountants, lawyers, individuals with knowledge of protocol regarding SEC operations and additional personnel when necessary. Next, information is compiled regarding the company's operating procedures and financials. This information is used to create the prospectus for the company that will eventually be disseminated to the public. Then, the prospectus is finalized and submitted for final audit by a third party. Once approved, the company files the prospectus with the SEC and targets a date for the IPO. The price of an IPO is decided by many factors, including the company's prospectus, industry trends, the profitability of the company, investor confidence and more.

The history of IPOs

IPOs can be traced back as early as the second century BCE, when Rome issued the modern-day equivalent of joint-stock from legal bodies of independent ownership units. Move forward nearly two millennia and the rise of the East India Company resulted in the first ever government-backed initial public offering in 1602.

According to the Museum of American Finance, ownership shares were first made available to the American public in 1783; public shares were issued by the Philadelphia-based Bank of North America, which was set up by Robert Morris with alleged support from Benjamin Franklin and Alexander Hamilton.

Related terms to IPOs

Here are a few terms you may hear associated with an IPO and what they mean in relation to the process of "going public."

Break issue is when a stock from an IPO trades below the original asking price within a first few months of being publicly traded.

Eating stock is when there are insufficient buyers for a stock following an IPO. Typically, underwriters guarantee a certain level of buyers and if that level is not met, the underwriters must absorb the difference. Usually, underwriting fees are high enough that underwriters won't take a net loss on the venture in the event of eating stock.

Public offering price is the initial amount for which the stock sells. Typically, this is compared with the subsequent value of the stock in order to demonstrate how the price has changed over time.

Risks of investing in IPOs

Much like any other type of investing, buying shares of an IPO comes with the inherent risk of market fluctuation. It may also be difficult to predict how stock from a newly-public company will perform in its first few months, as it may take time to gauge investor demand and the market share of the company. Additionally, companies could possibly time the market in such a way that the IPO is favorable to market conditions.

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