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EARLY RETIREMENT INCREASINGLY THE GOAL FOR YOUNGER GENERATIONS

This may be wishful thinking for some, but there are ways to help them achieve their target retirement age.

By: Amanda Umpierrez - September 10, 2020

The divide between generations' retirement goals seems to be increasing.

According to a recent Vanguard study, although most American workers plan to retire around age 65, a growing number of those younger than 40 years old are hoping to retire earlier. The study found that most members of Generation Z (67%) and most Millennials (61%) plan to retire before age 65, and nearly one-third of Gen Z (31%) and nearly one-quarter of Millennials (22%) plan to retire before age 60. Yet, research shows, those in the Generation X and Baby Boomer workforce believe an early retirement is far from the picture. In fact, these two age groups are likelier to retire later, or choose to never retire.

Dean Edwards, principal and head of advice and digital for Vanguard's Institutional Business, says he believes that because those in younger age groups are far from retirement, retiring earlier may seem more realistic than for those in older age groups who only have several years left before they hit standard retirement age. "When thinking about retirement, your proximity to it certainly influences your feelings about it," he says. "Younger generations are decades away from reaching retirement age, so the prospect of retiring early may feel more attainable given the amount of time they still have to save and prepare."

Only 39% of young Boomers (those born between 1956 to 1964) and 54% of Gen Xers plan to retire before age 65, while just 7% of young Boomers and 22% of Gen Xers plan on retiring before 60, according to the Vanguard study. Recent research from Willis Towers Watson paints a similar picture when it comes to younger workers—nearly half of Gen Z employees expect to retire before age 65.

Steve Nyce, a senior economist at Willis Towers Watson, says these goals tend to be aspirational for many in their early-working years, only to be corrected later in life when mortgages, family, caretaking and other costs come into play. For example, many people underestimate the cost of health care during their careers and what that will do to their ability to save for retirement and find coverage if they retire before age 65, he says. "This leads many to revise their expectation and, for many, that means a longer working career," he says. "This looks more like wishful thinking that's not grounded in the economic realities that many will face."

Steve Vernon, a research scholar at the Stanford Center on Retirement, says younger generations will need to take Social Security into consideration as well. Currently, workers cannot file for Social Security until age 62 at the earliest. "If you're retiring at age 50 or 55, you have to have a different plan for saving money," he says.

He also says more individuals, especially younger workers, are monetizing hobbies and activities and choosing that avenue as work. In the future, these individuals may choose to continue this work into retirement. "Some people are changing up what retirement means to them. It can mean doing the work that you love doing, and so there's also an evolving view of retirement at play here," he adds.

Access to affordable and personal financial advice can drive better outcomes for investors and help them achieve their goals, says Edwards. "As our survey findings demonstrate, financial and retirement goals differ by generation, so it's important to ensure that advice offerings can be tailored to an individual's needs, preferences and desired value for the cost," he says.

Those in younger generations, most of whom are well-versed in technology, may prefer an online portal to access their retirement account and future financial goals, while older generations may be more comfortable working with a financial adviser, Edwards says.

However, Millennials and Gen Zers can still benefit from working with a financial adviser. Retirement experts can help younger workers visualize what their future could look like, says Scott Butler, a financial planner at Klauenberg Retirement Solutions. "Do not go by rules of thumb. Visualize what you want retirement to look like and put a price tag on it," he says. "Then you can start working backward to figure out how much you need to save up to by your retirement date and then how much you need to save to get there. This is one of the places a financial adviser can really help, especially when determining what rates of return to try to achieve before and after retirement and when to use the different tax-favored investment vehicles."

Additionally, Nyce says, the use of "informal learning" such as talking with colleagues, friends and family about their thoughts and experiences, can go a long way to support employees. "Employers should take steps to facilitate those discussions through employee resource groups and encourage those practices generally," he says.

He says employers can help their workers achieve an early retirement by leveraging tax-advantaged spending/savings tools such as health savings accounts (HSAs) and flexible spending accounts (FSAs). "HSAs in particular can help employees accumulate savings to pay for health care costs in a much more efficient way and, if [the employee is] healthy, they can accumulate a valuable nest egg to draw on during retirement," he adds.

Early retirement hopefuls can take full advantage of matching dollars available through employer-sponsored plans or use Roth accounts and other tax-free investments, Butler suggests. He also recommends taking an aggressive approach to investment options but being wary of going overboard. For example, employees can invest a larger percentage of their savings into a diversified allocation of small cap stocks using mutual funds or exchange-traded funds (ETFs) rather than investing in individual stocks or Bitcoin. "The right allocation will be different for everyone based on their risk tolerance, goals, options available and investment timeframe," he says.

Once participants get closer to retirement, they can work with an adviser to put their plan together for how investments will generate retirement income over time, Butler notes. He says participants should have a plan that sections off assets they will use for income throughout their retirement. "That way, you can invest each segment according to its timeframe and purpose without affecting the level of risk and return of the other segments," Butler says.

Scott Butler, CRC, is a financial planner with Klauenberg Retirement Solutions. Using his background as a former teacher, Scott breaks down financial topics to levels that clients can more easily understand, believing each person should have a basic understanding of the wealth strategies and products that work for them.

To contact Scott, call 301-317-0401 or visit KlauenbergRetirementSolutions.com