The State of Retirement Readiness In America Today

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When it comes to Retirement Readiness, we're facing a crisis of epic proportion.   Many Americans have no idea how far behind the Retirement Planning 8 Ball they really are.

Whether you're retired or very close to it, whether you've accumulated a couple hundred thousand dollars or several million, planning for your retirement is more challenging today than ever.

Let's look at a snapshot of Retirement Readiness in 2014. There are about 55 million baby boomers that are reaching retirement age at the rate of 10,000 a day for the next 15 years. Sadly, baby boomers will be the first generation since the 1930's that will be worse off in their older years than their parents.

You can't watch TV or read a newspaper today without being reminded of the uncertain times we're in, including disappearing jobs, stock market volatility, massive deficits, escalating health care costs, and the overall rising cost of living.

The fact is…the vast majority of Americans haven't saved enough during their 40 years of work to fund a 20 to 30 year retirement, and 33% have saved nothing at all.

For those that thought Social Security would take care of you, think again. The average Social Security retirement benefit is $1,234 a month. That's $14,800 a year, which puts you just above the poverty threshold.

When there's enough pain, people take action. The pain becomes very evident when you shine a spotlight on the real disconnect between what retirees should have set aside as they enter retirement, and what they have set aside.

Most haven't planned ahead…they're ill-prepared and they need help. This is not your parents' retirement, where your employer held a going away party, presented you with a gold watch and a nice pension with a guaranteed paycheck for life.

Unfortunately, pensions have gone the way of the dinosaur. Companies realized it was cheaper to match employee contributions to a 401(k) plan.

And speaking of retirement? What retirement?…74% of baby boomers expect to continue working once they are "retired" and 40% plan to work "until they drop."

On the savings front, it's even worse, with 46% of all workers having less than $10,000 saved for retirement, while 29% have saved less than $1,000.

And we're in debt: 56% of retirees still had outstanding debt when they retired. Bankruptcies for Americans, age 65 through 74, have increased an astonishing178%. The most startling rise in bankruptcies occurred among those 75 to 84, soaring 433%. The number one reason is out-of-control health care costs.

In 1991, half of all American workers planned to retire before 65. Today, that number has plunged to just 23%. Currently, several proposals to increase the retirement age to 70 are being considered. No wonder 88% of all Americans are worried about "maintaining a comfortable standard of living in retirement." The old adage that people spend more time planning a two-week vacation than they do their retirement seems to be partly true.

Retirees spend 40 years in the accumulation phase building their nest egg. But for most, that nest egg clearly isn't big enough. As they transition from the accumulation phase to the spending phase, there are a number of issues that must be addressed.

Issues such as longevity. How does longevity affect funding a retirement that could well last 30 years or longer? Retirees today have to plan for the longest retirement ever. In 1900, life expectancy was 47. By 1930, it inched up to 59. By 1960, it was 69. Then it rose to 76 in 1997, inched up to 78 today, and by 2040, it's expected to be 84 years of age.

Reaching age 65 in good health means you've got a 50% chance of living to 85 or 88, and a 25% chance of living to 92 or 94. There's a very real possibility that you may need 30 or more years of retirement income. The question becomes…will you outlive your money or will your money outlive you?

Aside from longevity, one of the greatest areas of concern is health care. How does the rising cost of health care affect your retirement planning? Nearly 3 in 4 cite rising health care costs among their top retirement fears, and rightly so. Retiree health care costs have risen 6% a year since 2002. That's 2.5x the inflation rate for that same period.

Nearly half of high-net-worth individuals say they're "terrified" of what rising health care costs may do to their retirement planning. Yet, 38% have never discussed this with their financial advisor. Only 12% have taken into account health care costs in their retirement planning. Few issues generate higher anxiety for pre- andpost-retirees today.

For example…retirees estimated their per-person health care costs would be about $5,600 per year. Yet, out-of-pocket health care expenses for a 65-year-old couple retiring today and living for 20 years range from $250,000 to $430,000. That's as much as $10,750 a year per person, which is more than double the amount retirees estimated. That could eat up 35% of the couple's annual Social Security benefit and that doesn't include any long term care costs.

How about Medicare? Medicare covers roughly 50 million Americans, but many retirees assume incorrectly that employers will continue to pay their premiums during retirement or that Medicare will cover all health care expenses. The reality is…it doesn't. Americans estimated that Medicare will pay for 68% of their health care costs in retirement. The fact is…Medicare covers only about 51%.

Only 1 in 5 are confident in their knowledge of Medicare coverage. And more than half say it's "very to extremely important" they get educated on Medicare coverage when planning for retirement.

While 45% expect health care to be their biggest expense throughout retirement, nearly 9 out of 10 are flying blind when it comes to understanding what could be, for many, one of their largest costs in retirement. We believe it's prudent, even essential, to have a discussion about what rising health care costs could do to your retirement planning.

And how about your nest egg? How big of a nest egg do you need set aside to retire comfortably? Many nest eggs are still recovering from the financial crisis in 2008 and 2009. Between 2007 and 2010, the typical family's net worth dropped almost 40%, wiping away 18 years of savings and investment. While the market has improved since then and housing seems poised for a rebound, all of these factors have made planning for retirement more complicated than ever. Just 14% are "very confident" they will have enough money to live comfortably in retirement. More than 56% haven't even tried to calculate how much they'll need to save.

So how do you know if you're saving enough? As a general rule of thumb, you'll need to have saved eight times your final salary by age 67 if you want to maintain a lifestyle similar to the one you had while working. To reach that number, here are some checkpoints along the way. You should have one times your annual salary saved by age 35. By 45, three times your salary. At 55, your savings should have risen to five times your salary and eight times by age 67. AARP's figure is nine times, while Money Magazine says more like 12 times.

For example, if your final salary is $100,000. At 8 times, you'll need $800,000 set aside in a nest egg. For many approaching retirement, they have a retirement shortfall and the challenge becomes just how big that shortfall really is. If you have a retirement shortfall, the time to address it is now, while there's time to make adjustments.

As a nation, American workers are $6.6 trillion short of what they need to retire comfortably. Have you ever wondered just how big a trillion dollars really is? Take a $1,000 bill. If that stack is 4 inches high, you're a millionaire. To be a billion dollars, that stack would have to grow to 358 feet. How high do you think that stack would have to be to have one trillion dollars? How about 67.9 miles high!

In addition to your nest egg, you also must address inflation. It affects every retirement portfolio and it's especially problematic for retirees on fixed income. A recent headline in the Wall Street Journal said, "Low Interest Rates Crack Retirees Nest Eggs."

With inflation, your money is worth less each year. So how do you preserve your buying power for the next 30 years? That's a tall order…but it can be accomplished.

From 1925 through 2012, inflation has averaged just over 3 percent. At 3% inflation, a 62-year-old baby boomer living off of $100,000 per year today would need more than $134,000 in annual income at age 72, $180,000 per year at age 82, and $242,000 per year to preserve their buying power over their probable life span.

After longevity, withdrawal rate risk is one of the big challenges retirees face. Most Americans have no idea how dangerous it is to withdraw too much from their nest egg each year. So, what is the appropriate spending rate from a nest egg?

When asked how much money they need to support themselves in retirement, the median response was $300,000, but the median savings of the respondents was just $25,000. When asked how much they thought they can afford to withdraw from that nest egg each year, the typical response was 10%, nearly triple the generally accepted rule of thumb of a safe 3 - 4% withdrawal rate.

When asked how they come up with these predictions, 75% of respondents guessed. Guessing is not a retirement strategy. The Wall Street Journal said that a 2% withdrawal rate is bullet proof, 3% is considered safe, 4% is pushing it, and with 5% or more, you run the risk of possibly running out of money. Have you ever wondered how long your money will would last if you stop working today?

How about Social Security? What is the optimum age for you to retire to maximize your benefits? Someone earning $50,000 retiring at 62 today would receive about $1,000 a month. If they waited until 70 to retire, the benefit would rise to about $1,951 per month, almost double.

Nevertheless, a startling 72% of Social Security recipients begin drawing their benefits at age 62, the earliest year of eligibility. The fact is that each year you delay taking benefits beyond full retirement age, Social Security increases by 8 percent, up to age 70. Knowing that, one would naturally assume the best way to boost your retirement income is to delay taking Social Security benefits. But you might want to think again. Several factors go into that decision.

Here's the challenge with Social Security. With 78 million baby boomers reaching retirement age, 10,000 a day will stop working, stop contributing into Social Security, and start taking money from the program.

When Social Security was born in 1935, life expectancy was just 58 for men, 62 for women, with the retirement age of 65. Social Security was designed so workers would pay in, but most would pass away before they retired and started taking benefits. The situation today is much different with people often living into their 80's, 90's and beyond. The fastest growing segment of the population is the oldest – those 80 and over, putting even more pressure on Social Security.

This explains why Social Security is less certain than in the past. In 1945, there were 42 workers supporting each retiree. In 1950, there were just 16.5 workers for each retiree. Today, it's down to 2.8 to 1 and by 2030 it's expected to be 2 to 1. Social Security today is no longer a self-sustaining enterprise. For the second straight year, Social Security paid out more than it took in, and that gap is expected to grow as more baby boomers retire.

Consider the staggering U.S. National Debt. It's fast approaching 17 trillion dollars. That's over $52,000 for every U.S. citizen, and over $145,000 for every U.S. taxpayer. But this doesn't begin to tell the story of the federal government's true liabilities. The actual liabilities of the federal government, including Social Security, Medicare, and federal employees' future retirement benefits…those promises we've already made exceed $86.8 trillion dollars. Add that to the roughly $17 trillion national debt and the United States federal government is over $100 trillion in the RED.

With Social Security already having to accommodate an unprecedented and overwhelming number of healthy, longer-living retirees, you may be able to count on a check, but will it be enough? You're being forced to assume more and more responsibility for your retirement. That explains why 81% of retirees felt a detailed Retirement Income Plan is "very important," yet only 18% actually had one.

Whether retirement is many years away, just a few years in the future or you're already retired, it's never too early or too late to take control of your retirement.

Here's the 6 step process we go through in creating a Retirement Income Analysis.

Step 1: We will ask you to articulate the retirement you've always envisioned, sharing your hopes, dreams and goals. What does it look like? What are you doing? Where are you doing it? And who are you doing it with? Does the retirement you envision include starting a business, working part time, moving and relocating, volunteer work, a new hobby, a vacation home, travel abroad or going back to school?

Step 2: We will take an inventory of all of your assets, savings and investments. In order to create a sustainable Retirement Income Plan, we'll be looking at your assets such as retirement plans, mutual funds, annuities, insurance, stock and bonds and a host of other assets.

Step 3: We'll calculate and get a pretty good idea of what your expenses in retirement will be. Some expenses will increase in retirement, while others may decrease, but we'll focus on areas such as housing, food, transportation, clothing and personal items, health care, entertainment, and travel to name a few.

Step 4: We'll total up your income from all sources in retirement. In retirement, you'll likely have a patchwork quilt of several sources of income from areas such as Social Security, retirement accounts, stocks, bonds and mutual funds, CD's, inheritance, annuities, and money market funds for starters.

Step 5: The previous 4 steps will help us determine in Step 5 if you have a projected retirement surplus or a shortfall. After knowing what you envision your retirement to be, looking at your assets, savings and investments, having calculated your income in retirement less your estimated expenses, we'll be able to tell you if you have a retirement shortfall…and if so, how big.

Step 6: If there is a shortfall, we'll lay out the various options available and explain the associated trade-offs with each one.

A Retirement Income Analysis is the easiest way for you to know with confidence if your retirement income plan is sustainable. If you would like to have a no-cost, no-obligation, Retirement Income Analysis created just for you, contact our office at 610-478-9500.

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