

When it Comes to Retirement, Americans Remain Shaken, Not Stirred

by Gail Buckner

FOXBusiness.com

Thursday, April 17, 2008

Dear Friends,

We're finally starting to recognize the stark realities of retirement: Many of us haven't saved nearly enough and we're running out of time. If you were among those counting on your home's appreciation to bail you out you, may have seen a big part of that evaporate in the past year. (As if you could sell it now, anyway.) And the recent turmoil in the stock and bond markets in the past six months probably took a significant bite out of your 401(k). We're already hearing anecdotal cases where people are postponing their retirement because of the decline in the value of their assets.

This doom-and-gloom is reflected in the latest findings from the Employee Benefit Research Institute [EBRI], a non-partisan think tank that has been tracking our attitudes toward retirement issues for nearly two decades. This year, EBRI's Retirement Confidence Survey recorded the sharpest one-year decline ever in the public's confidence about having a financially secure retirement.

Overall, pessimism about this is the highest it's been in the past seven years. More than a third of us who are still in the workforce (37%) are either "not too confident" or "not at all confident" about having enough money to live comfortably in retirement.

The decline in confidence is similar among those who are already retired. One possible reason: Almost half of retirees (44%) said health-related costs are consuming a bigger part of their income than they expected. Thirty-nine percent of retirees expect that by the time they die, they will have used up all of their savings.

Jack VanDerhei, an EBRI fellow who helped interpret this year's results, said increased media coverage of such topics like the funding problems faced by Medicare and rising health insurance premiums have made Americans more aware of fact that this is a major- and growing- expense that retirees have to shoulder. The fact that we are in a presidential election year also raises awareness.

EBRI's 2008 survey was conducted in January when "we were in the middle of the primary debates and hearing the candidates go on and on about health care problems," said VanDerhei. On top of this, "Fidelity keeps publishing that retirees need at least \$200,000 just for health care. People are picking up on that and asking themselves, 'How am I supposed to pay for that and everything else,'" he said.

No wonder we're bummed out! That nest egg number you may have been aiming for is probably far too low. That dream of early retirement? Fagedaboutit!

For many of tomorrow's retirees, (i.e baby boomers), the fall-back retirement plan is "keep working," as evidenced by the fact that "the typical worker expects to retire at age 65." However, 1 out of 5 plan to still be pulling in a paycheck into their 70s.

Unfortunately, that might not be realistic. A significant number of today's retirees said they had no choice about the timing of their retirement: health problems forced them to

leave the workforce earlier than planned.

The question is, Why don't we save more so that we can afford the retirement lifestyle we want? Or, in VanDerhei's terms, why do we make the choice to consume while we are working as opposed to saving for retirement?

Sure, we've all got bills to pay. But it seems to me that so many of them are of our own making. I'm not suggesting you put your family on a cat food diet! I'm just pointing out that maybe it's not critical that each child has his/her own television or that you replace your cars every couple of years. A family camping vacation can be as much--and potentially more--fun than one spent on some exotic beach in the Caribbean.

It really comes down to making choices. Sometimes they're hard. But is instant gratification and keeping up with the Jones' really worth sacrificing your retirement? As I tell people all the time, one of the best gifts parents can give their children is the knowledge that mom and dad can take care of themselves financially in retirement.

The worst thing is to allow yourself to get paralyzed by the scary numbers you hear about how expensive retirement is going to be. There are dozens of variables that will affect this: your health, if married, your spouse, and being primary. Others include where you live, the activities you want to engage in, your travel desires, the food you consume both in and outside the home, etc...

Knowledge is power. So arm yourself with some basic information, starting with an estimate of how much money you need to have in order to enjoy the retirement you want. Make an appointment with a financial planner for this or simply go to www.ebri.org and enter some basic information into EBRI's "ballpark estimate."

Believe it or not, this will not only be eye-opening, it may also be behavior-altering. It's something less than half of working Americans have done. However, according to EBRI, 60% of those who went through this exercise were motivated to increase the amount they had been saving or investing.

This exercise will also force you to take a cold, hard look at where your retirement income will come from. According to VanDerheis, who is also a professor at Temple University's business school, "There's a huge percentage of people who don't have defined benefit coverage and who magically think they will have [pension income] when they retire."

"The only thing that's scarier," he said, is that people who used to be covered by a pension plan, but no longer are, don't seem to understand that they need to pick up the slack. "Almost half have not increased their 401(k) or IRA contributions. They also don't plan on working longer," said VanDerheis.

VanDerheis speculates that folks don't take the steps they should to shore up their nest eggs because "they just have no idea how modifying their current behavior is going to make enough of a difference." But it can, thanks to what Albert Einstein considered the 8th wonder of the world: compound interest. Play with the numbers on the Ballpark Estimate to see how the end result changes when you alter the amounts you contribute.

It might not be obvious, but I come from the glass-half-full camp that tends to see things

in a positive light. For years EBRI has been saying that Americans have a “false optimism” in terms of our confidence about our retirement finances and warning that we need to save more. Perhaps this latest survey is an indication that we’re finally getting real. Now we need to take action.

By the way, you might like to know that Vanderheis is a bit of an optimist himself when it comes to Social Security. For the second year in a row, the Social Security Trustees reported they expect the trust fund to be exhausted by 2041.

This does not mean that Social Security will be out of money and stop sending checks. It simply means that the extra money we’ve been contributing since the early 1980s to prepare for the retirement of the large baby boom generation will be used up.

However, even if nothing is done between now and then, at that point Social Security will still be able to pay out around 75 cents of every dollar in benefits promised to tomorrow’s retirees. How? From contributions collected from those who will be in the workforce at that time.

Thirty-three years is a lot of time. In Vanderheis’ opinion, “We’re still far enough away that you could have a rational compromise between benefits being modified and a slight increase in the revenue collected.” In other words, we would be able to avoid either a drastic cut in benefits or a huge payroll tax hike.

How much you want to bet that kind of comment never makes it to the headlines?

Hope this helps,

Gail