

The Retirement Time Bomb

Survey Finds Only 13% of 55-64-Year-Olds Have Enough Money to Live 30+ Years in Retirement

Running out of money is the number one retirement concern for the majority of respondents, according to a new survey by Brown & Tedstrom, Inc., a Denver-based financial planning and investment advisory firm that manages over \$300 million in assets for people in or near retirement.

In spite of this, the same majority is only saving 10% or less of their current income and can only live 10 years or less on their current savings.

Timed to National Retirement Planning Week, the survey also sheds light on how people are preparing for retirement.

The findings are from a survey conducted on the telephone Oct. 12-15, 2006 among a random sample of 733 adults who are not retired. Opinion Research Corporation of Princeton, N.J., conducted the fieldwork. For instance, the average annual cost of long-term care in the U.S. is \$70,000.00, yet 62% of 45-64-year-olds have not factored this into their financial retirement plan.

Furthermore, less than half (40%) of 55-64-year-olds have discussed their financial plan with their children and only one-fourth of respondents have created a retirement checklist. Additionally, over 80% of all respondents said that philanthropy was not an important part of their retirement plan.

“The vast majority of Americans are not adequately planning for retirement, which could create a financial time bomb for their family that eventually places a significant financial burden on their children,” said Mark Brown, managing partner at Brown & Tedstrom.

“One of the first steps in mapping out a plan is to develop a checklist to identify your strengths and address any gaps you might have to help ensure a successful retirement.”

How Much Should You Save?

The good news, said Brown, is that the majority (71%) of non-retired adults age 45 and older are saving some percentage of their current income for retirement. But how much should people be saving?

According to Brown & Tedstrom a 30-year-old making \$100K a year and investing 10% of his/her income with an 8% return will have \$2 million at age 65. That person would be able to live on \$100,000 annually for the rest of his/her life, which is approximately 5% of his/her retirement savings.

However, for every eight years after age 30 that a person waits to start saving, the amount he or she needs to save doubles.

The survey found that traditional retirement beliefs and expectations are changing. Over half (54%) of all respondents expect to continue working past retirement, yet only 13% are concerned about it, indicating that the retirement landscape has shifted—people now want to continue contributing to society well past age 65.

Additionally, despite current estimates that \$41 trillion will trade hands by the year 2052, intergenerational wealth transfer doesn't appear to be part of financial planning—only 22% of 45-64-year-olds expect to receive retirement income from an inheritance.

And as company and government pensions become less certain, only 43% of those surveyed said they expect to receive retirement income from those sources.

“Notions that people once considered mainstays of their financial plan, such as inheritance, pensions, Social Security and retiring at 65 are no longer expected, much less guaranteed,” said Peter Tedstrom, a partner at Brown & Tedstrom.

“These survey findings shed great insight into people’s concerns and illustrate the importance of building a diversified financial plan.”

401(k) Participants Concerned

Even though they monitor closely their 401(k) investments and feel confident they’re making correct 401(k) investment decisions, many participants in a recent survey by New York Life Investment Management LLC (NYLIM) are still concerned their assets will not last long enough for them to retire comfortably.

According to the 2006 survey of 8,958 participants on NYLIM Retirement Plan Services’ platform, 60% of participants agree that they’re making correct investment decisions in their 401(k) account.

But at the same time, only about half of all participants feel they know how much money they will need in retirement and less than 40% believe they’re in a good position to meet financial goals when they retire.

Also, more than half of those surveyed agreed that “I am willing to take on substantial risk if it could mean a higher return.”

“This research shows us several things—first, that by emphasizing a retirement account balance instead of the amount necessary to retire in comfort, we have all been putting the emphasis on the wrong idea,” said Don Salama, senior managing director of NYLIM Retirement Plan Services.

“Many of these participants monitor their investments carefully, are prepared to take some risk and feel they’re making good decisions, but are still worried they won’t have enough for the long haul.”

Data from the survey also showed that different participant populations, even within the same company, may need significantly different types of retirement planning tools.

For instance, more than 40% of participants surveyed would like someone else to manage their 401(k) account with their input and 39% agreed with the statement “I tend to rely on advice from a professional financial advisor when making investment decisions about my 401(k) retirement account,” while 44% disagreed with this statement and the rest were indifferent.

Meanwhile 75% of participants surveyed said they enjoy learning about investing and 68% closely monitor the value of their 401(k) accounts.

“Just because participant X sits in a cube next to participant Y does not mean that they have the same ideas about and needs for retirement investing,” said Salama.

“This survey provides concrete evidence that we need to meet participants where they are. This means offering everything from auto features and managed accounts to do-it-yourself tools on the other end of the spectrum.”

Facing Health Consequences

Another survey also clearly shows that many Americans are not planning for the health consequences of growing older, either.

According to a new survey by the Life and Health Insurance Foundation for Education (LIFE), nearly four in 10 Americans say they would turn to family and friends if they were ever to need long-term care services, compared to relatively few who say they plan to rely on insurance or private savings.

The late 2006 survey asked 1,025 adult Americans what they would rely on most if they were ever to become unable to handle some of the basic tasks of daily living, such as bathing, eating and dressing themselves.

Here's how they responded: Family and friends, 39%; health insurance, 18%; long-term care insurance, 15%; accumulated savings, 12%; and government assistance/programs, 12%.

Deb Newman, president of Newman Long Term Care and a member of the Board of the LIFE Foundation, says these results illustrate that many Americans have no plan when it comes to long-term care.

"No one wants to burden their loved ones when they can no longer take care of themselves, but that's precisely what many Americans think will happen to them because they aren't taking advantage of the planning options available," she said.

"The chances of needing long-term care at some point in your life are greater than 50%, and yet very few people are prepared financially so that they won't have to fall back on their family."

Newman added, "The fact that more Americans say they would rely on health insurance than long-term care insurance to provide for their long-term care needs also shows that many people are confused about what long-term care insurance is all about. Health insurance won't pay for daily assistance with things like bathing, eating, or getting in and out of bed."

When asked what the significant components of their retirement plans are, overwhelmingly those who responded to the LIFE survey were slightly more than twice as likely to rank most planning components higher than long-term care insurance.

The public responded: Social Security, 72%; 401(K) and other retirement savings plans, 71%; individual savings accounts, 70%; home equity, 67%; life insurance, 61%; and long-term care insurance, 33%.

"One of the main reasons people purchase long-term care insurance is to preserve their retirement assets, so it's surprising to see that so many Americans don't value it on par with other planning components," said Newman. "Costs for long-term care services are only getting higher, so do your homework and take action now while you're healthy and coverage is affordable."

To help people understand the important role of long-term care insurance, LIFE reviewed some of the common misconceptions people have regarding funding sources for long-term care:

Health Insurance. Typically, health insurance only covers doctor and hospital bills and a portion of your prescription costs. Health insurance will not provide coverage for any care that you may need outside the hospital, such as home health aides and nurses, home-delivered meals or stays at nursing homes or other assisted living facilities.

Medicare. Medicare is a government-sponsored health insurance program for people 65 and older. It only covers short-term rehabilitation care after you have been hospitalized for at least three days, are homebound under a physician's care or have been certified by a doctor that you have six months or less to live.

Medicaid. Medicaid does pay for long-term care services, but for those with very limited assets, who fall within their state's determined poverty level.

Social Security. While the Social Security Administration recently announced that it will increase payouts 3.3% next year, on average, most people receive just over \$800 a month in benefits.

In fact, the maximum benefit you will be able to receive retiring at your full retirement age will be just \$2,116 a month starting next year. Is that amount enough to maintain your standard of living and pay for expensive long-term care costs?

To obtain more information about these topics, visit www.life-line.org on the Web.

Five Steps to Retirement

In order to help people prepare adequately for their future retirement needs, Brown & Tedstrom outlined the top five retirement landmines people should avoid, and provided the top five tips for successful retirement.

According to the company, the top five retirement land mines are:

- Don't expose more than 10% of 401K investments on company stock.
- Diversify your investments; make sure your risk is appropriate for your retirement horizon.
- What if you get sick? Plan for the unexpected and build shock absorbers into your plan.
- Don't fall for low rate adjustable mortgages that sound good now but put you in a deep hole later.
- Resist market timing and impulsive short-term decisions.

The top five tips for successful retirement recommended by the company are:

Create a retirement checklist. The Brown & Tedstrom Retirement Scorecard helps clients determine how much they need to save for retirement. While everyone's income level differs, the formula factors cash flow needed at retirement by looking at current cash flow, investment capital, years to retirement, return on investment assumptions and future cash flow projections.

Develop a retirement shock absorber. Everyone wants a smooth ride in retirement, but recent historical events have taught us that anything can happen at any moment. That's why building retirement shock absorbers into your investment portfolio can cushion the bumps enough to get you to your destination comfortably.

Talk to your family. Start talking to your children when they are in their 20s or 30s. Even if the topic is sensitive, the consequences of avoiding it could have a serious impact on your children and grandchildren.

Plan for a long life. Diversify investments, avoid depleting assets, continually educate yourself, and work with a Certified Financial Planner Practitioner to make sure you don't outlive your financial plan.

Don't forget about long-term care. Most people don't realize how expensive long-term care can be. Work with a Certified Financial Planner Practitioner or insurance professional and look into long-term care insurance to make sure you won't have to move back in with the kids if you outlive your retirement.

Many Plan to Rely on Social Security for Retirement

Despite the common knowledge that Social Security and company provided pensions may not be available for Americans when they approach retirement, many still plan to rely on them as significant sources of income when they retire.

According to a new survey by the Retirement Corporation of America, nearly one in four Americans indicate they will look to Social Security (23%) for their primary source of income during their retirement years.

The survey also highlights a distinct gap between what Americans think they need to have saved by the time they retire and where they expect to derive their income during their retirement years.

The survey is based on a national phone poll of 1,000 non-retired Americans conducted Sept. 29-Oct. 1 and was compiled by Rasmussen Reports, LLC, an independent research firm.

While nearly six in 10 (59%) believe that they are likely to reach their savings goal, only three in 10 (31%) believe that their savings, mutual funds or IRAs will be the primary source of their income.

Sixty-one percent of non-retired Americans believe that they will need to have saved \$500,000 or more when they retire.

“It is not surprising that many Americans believe they will have enough money to retire,” said Daniel Kiley, chairman and chief compliance officer of the Retirement Corporation of America. “Increased life expectancy has driven many to work for a longer period of time, offering a greater chance of achieving financial retirement targets.”

“However, as traditional sources of retirement income such as company pensions and Social Security dwindle by each passing day, more Americans will have to take charge of their finances and begin planning and investing to generate alternate streams of income.”

Survey respondents also were split in their views about retirement age, according to the researchers. While one in four Americans does not plan to retire at all, another quarter plan to retire between the age of 51-60 and 36% plan to retire between 61 and 69.

Further, most Americans indicate that they are actively planning for retirement, as 70% indicate that they are regularly saving or investing some of their income and 38% say the amount they are saving or investing will be enough for their retirement.