NEWS REVIEW

Heartland Institute of FINANCIAL EDUCATION

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New Study Takes Pressure off Pre-Retirees Worried About Not Saving Enough

A new study by Marlena Lee of Dimensional Fund Advisors examines how desperate the savings situation is for pre-retirees. There hasn't been a dearth of studies that report an alarming future for pre-retirees, and replacement rates of 75 to 80 percent are often cited, which only assures "under-prepared" pre-retirees that they won't be able to save enough even if they try. However, Lee's study of actual retirement spending suggests that these replacement rates are "alarmist" and not exactly accurate. She argues that the data support the findings that the more one makes, the less one needs to replace, and that portions of one's retirement will be provided by Social Security, which also diminishes a retiree's replacement rate. The article linked below makes a case for continuing to save but worrying less about the alarming reports that insist pre-retirees aren't saving nearly enough and that income is the biggest factor in determining how much one will need to save.

A Grain of Salt For Those Retirement Projections

Only cave dwellers have missed the boom in retirement-planning studies: what seems like a daily barrage of industry-funded surveys and white papers pointing to an aging population so woefully unprepared they will have work until they are 90, brown-bagging cat-food lunches when they do.

Now one of those new studies, from a respectable and data-focused investment firm, is taking some of the pressure off individuals who may worry that they can't possibly save enough. "The savings rates we show (as necessary for retirement) can be achievable," said Marlena Lee, the researcher who did the study for Dimensional Fund Advisors, an Austin, Texas, company that is known for its low fees and highly analytical approach to designing mutual funds.

To understand Lee's research, you have to understand the math behind retirement planning. Here are the basics: A pre-retiree should estimate how much annual income she will need in retirement, subtract projected Social Security and pension income, and then aim to accumulate roughly 20 to 25 times the amount that is left by retirement. That is a conservative way to ensure you can pull 4 percent a year (plus an inflation adjuster) out of your portfolio every year and not run out of money over a long retirement.

Typically, retirement studies guesstimate the amount you will need by deciding what percentage of your final salary you need to replace. The replacement rate is often an alarmist 75 percent or 80 percent - yielding a figure that can make pre-retirees throw up their hands (and 401(k) statements) in despair.

Lee's research debunks that figure with actual data on retirement spending. She finds that the more you make, the lower your replacement rate needs to be because of line items like high working-year taxes that disappear in retirement for high earners. The less you make and the higher your presumptive replacement rate, the more of it Social Security will cover. That is good news for both groups.

It is only the bottom quartile of earners - those who make under $26,000 - who need as much as 82 percent of their working income to live comfortably in retirement. Social Security will replace the bulk of that, leaving that group to replace 23 percent of their final salaries - a maximum of $7,280 a year from savings - without any future belt-tightening.

By the time you are earning between $50,000 and $87,000, you only need 62 percent of your last salary to live on, and Social Security will supply half of it. The top earning tier will need 58 percent of income. Of that, Social Security will cover 21 percent, leaving 37 percent to be replaced through savings, pensions, or cost-cutting, according to Lee's research.

All of which means the amount of savings needed is less than you might expect. Lee's conservative calculations suggest that to have a 90 percent certainty of covering a 40 percent replacement rate, low earners starting young would need to save 5.3 percent and the highest income groups 12.8 percent of their salaries annually.

But, most people probably wouldn't need to save as much as that because (1) nobody in Lee's study turns out to need a replacement rate as high as 40 percent; (2) she uses a conservative stock/bond allocation model that has investors holding large amounts of lower-earning bonds instead of higher-earning stocks as they get older; (3) she uses conservative estimates of returns for stocks and bonds; and (4) she isn't counting on employer matches in 401(k) savings or any other sources of retirement savings or income. An investor could make up a savings deficit by investing a higher percentage in stocks - or by earning more on them - than Lee assumed.

The takeaway for workers is not to give up saving, of course. The more cash you have when you hand in your employee ID, the easier your post-work life will be - and nobody knows exactly how much healthcare costs could eat up in the future, with medical costs often rising faster than overall inflation. Last year U.S. healthcare costs rose 3.58 percent, according to the Labor Department.

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The other important lesson for pre-retirees is that you should worry less about the scare studies (like a recent one from the National Institute for Retirement Security that showed the typical "near retirement" household had only $12,000 in savings but excluded other household assets and did not adjust for income level) and think instead about the particulars of your own situation.

Consider how much you will actually spend in retirement based on your own tax rate and lifestyle, instead of plugging in a replacement rate. Factor in any inheritances, pensions, company matching payments and higher salaries as you age. Lee suggests younger, low-earning workers can save less to start and make it up later as their earnings increase.

"Some advice can be oversimplified," said Lee. "The focus of our research was to figure out, out of all these moving parts, which are the important ones to consider." Your own income determines how much you can afford to save. That, it turns out, is key.

Linda Stern is a Reuters columnist, July 2013

Wellness Becomes Focus As Retirement Age Drifts Higher

One of the more vexing puzzles for American workers goes something like this: You're probably not going to be able to retire as soon as you'd hoped, and it's more important than ever to start thinking about retirement.

There have always been those who, out of necessity or by choice, have skipped or spurned retirement, working on until the day they die -- quite possibly feeling that a carefree, work-free lifestyle would be wholly unsatisfying.

But for those who aspire to one day call it quits, more Americans are recalibrating their retirement expectations. In 1991, according to an annual survey for the Employee Benefit Research Institute, 11 percent of workers anticipated that they would work past age 65; by 2013 that figure leapt to 36 percent with 7 percent saying they had no plans to stop working. Survey respondents who expected to push back their retirement plans cited a range of reasons, from the struggling economy to their inability to afford retirement.

Financial considerations are, of course, central to retirement planning. But in order to prepare for careers that may extend well into their 60s or beyond, more people are also prioritizing their health earlier on, to make sure their careers are sustainable in the long term.

The trend of delayed retirement comes as the average American life expectancy increases -- it is now 78.7 years old, up from 62.9 in 1940, when regular, monthly Social Security benefits began to be paid out. As the website of the Social Security Administration puts it: "When you are considering when to collect retirement benefits, one important factor to take into account is how long you might live.“

That factor -- "how long you might live" -- implies a multitude of questions for any working American who chooses to fast-forward through the decades and imagine himself arriving at work at, say, age 67: How will I feel? How will I be motivated? How long can I really sustain this career?

Americans work an average of 1,790 hours per year-- more than most countries, including France, Germany, the U.K., Canada, and Japan -- and the U.S. is the only developed nation without a national vacation policy. The recession forced many people out of the workforce and required others to delay their retirement plans to overcome large financial losses associated with the 2008 stock market crash, said Lauren Nicholas, a health economist with the University of Michigan. "From a long-term perspective, we are working longer.“

In addition to financial realities, workers also have to contend with mental hurdles, since the notion of retiring at or around 65 has long held as conventional wisdom. "There's just something about that number -- 65 -- that still feels like an unofficial finish line," as Business Insider put it. And for young people, decreased earning potential because of unemployment or delayed starts to their careers can be another factor, with the result that the precedent of parents and grandparents retiring relatively young may seem less like a blueprint for their own futures than a relic of an earlier time.

That's the case for Arika Lycan, whose grandfather worked for General Electric for more than two decades. He had a pension and retired in his mid-60s. Lycan, who is 28, works for a small nonprofit in Michigan that promotes gardening and access to healthy food and loves her work as an outreach and volunteer manager. With a salary under $50,000, she expects to work another 35 to 40 years in the nonprofit sector -- work that fits with her skills and passions and gives her a clear sense of satisfaction and meaning.

To ensure that her career is sustainable, Lycan has already identified her health as a "big priority." She participates in her office's new "wellness pods," which ask employees to identify physical, mental and spiritual goals. She maintains a healthy diet and has also become a fitness buff, running, stretching and practicing yoga to manage stress and relieve the neck and shoulder pain she developed from slouching and from long workdays at the computer. "In times when the economy is uncertain and the future of retirement is uncertain, being active is my way to invest," Lycan said.

At a time when 8 in 10 workers are stressed out by at least one thing about their jobs, asking them to think deeply about retirement isn't likely to have a calming effect. But as employees face the prospect of working later into life, some employers see it as an imperative to bring about changes in the work environment.

More than 80 percent of mid-size and large U.S. companies now offer incentives for employees who participate in health programs, according to Aon Hewitt, the insurance brokerage and human resources company. Many focus on basic health markers, such as diet, exercise and chronic disease prevention, but a growing number take a broader view of what "lasting health" means, emphasizing relaxation and happiness. Case in point: 36 of the 50 employers topping the AARP's 2013 list of best employers for workers over 50 offered stress management training to both full and part-time employees.

These companies are part of a growing movement to push back against difficult economic realities by redefining the way we think about work -- as less of a rat race and more of a marathon, with rests and recharging opportunities along the way.

"There's a lot you can do in a workplace," said Ilene Masser, director of the Reach for Wellness Program at NYU Langone Medical Center. "You can bring in an awful lot of programs, and you can really change a life.“

NYU has partnered with more than 350 companies to develop wellness programs, including workshops that help employees identify their "stress signals." Internally, medical center employees can opt into a year-long challenge that promotes relaxation and stress reduction in exchange for financial and other rewards. There are 30-minute seated yoga classes at lunch and a 24/7 relaxation phone line that plays three and nine-minute guided meditations. "Begin to take these next few moments for yourself by getting into a comfortable position, closing your eyes and letting distractions simply float away," a recording coos. The programs are aimed at keeping employees healthy both in the short and long-term. "Our programs are focused on helping all employees develop and maintain a healthy lifestyle, including exercising and maintaining a healthy weight, regardless of length of employment," said Masser.

Some companies are finding that thinking strategically about personal sustainability is good for the bottom line. After the insurance company Aetna discovered that employees with the highest stress levels had health care costs that were $2,000 higher than those with the least stress, it instituted two mind-body stress reduction pilot programs: one that focused on mindfulness meditation, and one that taught employees viniyoga, a type of yoga that emphasizes repetition and breathing. Employee participants experienced a 33 percent to 36 percent decrease in their perceived stress levels and also saw improvements in heart rate measures, an indication that their bodies were more adept at managing the stress that can accompany a long career.

"By helping employees reduce stress or manage stress better, we can not only help them improve their health now, but also hopefully in the long term," said Ethan Slavin, a spokesperson for Aetna. "We hope that these programs not only help improve their health but also serve as another reason that employees would stay with Aetna for the long term, and in turn be committed to the success of the company.“

Of course, exposure to workplace wellness programs depends on where you work. For individuals who are self-employed or work for companies without structured programs, there's no relaxation hotline or institutional impetus to think about long-term personal sustainability. But people like Mike Young don't need to be told. Young, 43, a North Carolina-based real estate agent who also runs a landscaping company, regularly trains with a running club which not only keeps him in shape but fosters friendships, a key to longevity. He considers his weekly visits to church as integral to his wellness as his regular green smoothies. Both help him stay balanced so he can work, perhaps indefinitely.

"For previous generations, the dream was to get yourself set up so you can quit work and not have to do anything ever again," he said. "The more I think about it, I think that's not good. I think I might get really bored.“

For others, the dream of retirement still beckons. Aaron Davis, 38, is an independent distributor and consultant for a network marketing company working on commission and supplementing his income by working as a hair stylist. He takes pains to care for his well-being, sleeping eight hours a night and working out regularly, not so he can work forever, but so that when he retires, he'll be in the best possible health to enjoy his free time.

"I'm aware of some of the stats about retirement and how it's not really happening," said Davis. "I don't want to be the sad person that's broke or still working long hours when I'm 65."

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