

Benchmark

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It's Crunch Time for Baby Boomers

By [John Crawford](#)

Like many of you, I fall into the “baby boomer” generation, generally defined as those born from 1946 and 1964. Now that the first of the boomers have reached 60 years of age, we are starting to see a number of studies addressing how well this generation is prepared for retirement. The sad conclusion in most cases is “not very well.” A 2004 study by the Congressional Budget Office concluded that only about half of boomer households are on track to maintain their current standard of living at retirement, while at least a quarter of them will be almost exclusively dependent on Social Security benefits at retirement, almost certainly leading to a decline in their standard of living. When you combine this with the gradual elimination of social security reserves as this generation starts drawing social security, the prospects can indeed be scary.

Additional red flags for this generation were raised by a 2006 General Accounting Office Study. First of all, it noted that defined benefit pension plans, which in the past have been relied upon by a large percentage of the work force, have recently been in a marked decline, being replaced by plans such as 401k plans which rely upon individual savings, rather than a company-provided pension. Further, a major portion of the accumulated wealth by our generation is represented by our homes. For “middle class” baby boomers, over 60% of our wealth is in the roof over our heads. The current decline in the housing market should be a wakeup call for those of us who think our home can fund our retirement needs.

In my practice I talk with boomers about their financial future on a daily basis. This generation is an optimistic one. Most of us cannot retire with full social security benefits until age 66 or 67, yet most of the fellow boomers that I encounter aspire to retire early. We can't rely on the government to pay our way, however. Someone who has earned close to the social security wage base most of his or her working career (which today means almost \$100,000 annually) can still only expect to receive about \$26,000 per year from social security at normal retirement; even this amount is reduced if that person retires early. That \$100,000 per year earner will probably need at least \$80,000 per year to enjoy the same post-retirement standard of living; this means that about \$55,000 per year of income must come from other sources. Using the rule of thumb that you should not withdraw more than 4% of your savings each year to fund your post-retirement earnings, this means that, to maintain a post-retirement income of \$80,000 per year (including social security), this individual will have to accumulate \$1,375,000 in savings by retirement age. Persons with higher expectations will require proportionately more savings. Further, even this long-held assumption that you will need 70% to 80% of pre-retirement earnings in retirement may not hold up for today's baby boomers.

In the past, few retirees have had to pay home mortgages into retirement. Today we are seeing more and more retirees having to borrow to fund their retirement homes; for these individuals, close to 100% of preretirement earnings may be needed to enjoy the same standard of living. And with longevity increasing, many folks in this generation not only have to worry about their own retirement, but helping to pay for their parents who may be living in their homes well past their children's retirement age.

So how do you measure up? As a baby boomer, what can you do to plan for retirement? **First and foremost** is to save as much as you possibly can over the next few years. And traditional retirement savings vehicles will not be enough. For those of us over 50, we can defer up to \$20,000 of earnings per year into a traditional 401k or similar vehicle. But over 10 years, this is only \$200,000 of savings. Even prudent investing will not allow us to accumulate nearly enough over that period of time using traditional tax-deferred savings vehicles.

Some of you may be able to pour surplus earnings into other savings programs and reach your goals. Be careful to diversify, and perhaps include investments like real estate in your investment program. Don't make the mistake of putting all your eggs into your company's stock, no matter how attractive the incentives may be. Just ask anyone who worked for Enron, Worldcom or similarly-situated companies if you question this advice.

At a minimum, your goal should be to retire debt-free. If you don't have mortgage or credit card debt to worry about in retirement, your need to draw on your savings will be less. Downsizing may be critical. If you plan to downsize at retirement and are able to pay off your existing mortgage before then, you will be able to pull equity out of your existing home to fund retirement savings. Most boomers will need to plan to transition into retirement. Consider the above example of the individual having to find \$55,000 of retirement earnings. If he or she is able to work on a part-time basis after retirement, and earn half of that requirement for just a few years, the retirement savings will be much more likely to last through his or her retirement years. Don't forget to plan for the unexpected. A job layoff or a long-term illness can put a serious glitch into your savings program, or put an unexpected drain on your post-retirement plans.

Death or disability of a major wage earner will do the same. **Don't neglect health insurance, disability and life insurance premiums** during your wage-earning years. Look into long-term care insurance; the premiums will be much cheaper today than they will be ten years from now, particularly if your employer is one of the growing number that offers these plans on a tax-favored basis through your workplace.

Planning for retirement is daunting. For most of us, some sacrifices over the next few years will be needed. As we and our fellow boomers join the ranks of the retirees, however, the end result of a financially secure retirement will make these sacrifices worthwhile.