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Ready or Not! Retirement Security and the Baby Boomers Generation

Today there are 40 million Americans age 65 and older. By 2030, when all of the baby boomers (people born between 1946 and 1964) pass the age of 65, the population over 65 will reach 73 million people, or 20 percent of the U.S. population. Americans are living longer in retirement. The average life expectancy for a 65-year-old American is 17.7 years for a male and 20.3 years for a female.[1] That means Americans are living three to four years longer compared with the life expectancy of past generations. With life expectancy on the rise, the retirement income of our retirees needs to last longer than ever before.

An unprecedented number of Americans now face the prospect of a longer retirement than their predecessors. They enter retirement following a period from 2007-2010 when the U.S. economy experienced its most substantial downturn since the Great Depression.[2] Given the size of this population and the setbacks of the economy, the threats to their retirement security have broad implications for our society. Are they ready for retirement?

Ready or Not?
Approximately four in ten baby boomers have nothing saved for retirement. A study from the Transamerica Center for Retirement Studies (TCRS) reported that 36 percent of boomers are planning to rely on Social Security as their primary source of income.[3] What makes this statistic even more distressing is the fact that Social Security was never intended to be a primary source of income, it is only designed to replace about 40 percent of a worker's salary.

A generation that made its mark in the tumultuous 1960s now faces a crisis as it hits its own mid-60s. Through a combination of limited resources, procrastination, and bad timing, many baby boomers face economic uncertainty at a time when they are hoping to retire.[4] You can argue the American worker has faced more pressing economic concerns over the last decade than retirement. A number of factors have combined to form a 'perfect storm.' These include:

- **Bursting the Bubble: Housing and Mortgage Debt**
  For the past decade many Americans were using their home as a retirement fund. There seemed to be no end in sight for rising home values. The housing bubble burst in 2007 with the Great Recession and housing prices tumbled. The crash in housing prices has slashed almost a third of a typical home's value. Now 22 percent of homeowners, or nearly 11 million people, owe more on their mortgage than their home is worth. Many are baby boomers.[4] Mortgage debt is a problem for older Americans nearing retirement. Almost two in three people age 55 to 64 had a mortgage in 2007, with a median debt of $85,000.[4] Housing is the single largest expenditure in most household budgets, and therefore housing costs directly affect retirement security. When older Americans on limited budgets are spending a large percentage of their fixed income on housing, they have less to spend on food or healthcare. Homeowners who have paid off their mortgages by the time they are ready for retirement are in a significantly better financial position.

- **Taking the Risk: 401(k) Plans**

  How Americans save for retirement has changed dramatically in recent decades. Traditional pension plans have largely disappeared in favor of 401(k) plans. American workers' reliance on the stock market for their retirement planning is greater than ever before. Unfortunately there is ongoing volatility in the stock market. The past ten years have seen historic losses and gains, impacting the average American's retirement account.

  Pension-style plans spread risk out among all participants, whereas 401(k) plans place the burden of risk squarely and solely on the individual worker. Many experts argue that 401(k) retirement accounts are inadequate in many ways. Fees charged by firms that manage 401(k) accounts can cost workers a quarter or more of their retirement savings. Over a lifetime, these fees can add up to more than $155,000 in losses for the average household. [5]

  There is also a huge disparity in who has access to 401(k) accounts. A study from the Federal Reserve Bulletin dated June 2012 states, "70 percent of Americans with a college degree have a retirement account – compared to just 41 percent of those with only a high school diploma."[6] Low-wage workers often work in industries that lack benefits and do not offer 401(k) retirement accounts. Many low-income people work multiple part-time jobs and therefore are not eligible for retirement benefits.

  It's not all doom and gloom when it comes to retirement. While the financial crisis decimated investment portfolios, household retirement savings have increased from $75,000 in 2007 to $127,000 in 2014 (estimated median). Nonetheless, if you weren't invested in stocks or owned a home, you likely missed a significant portion of this wealth accumulation.[7]

- **The Plastic Safety Net: Rising Credit Card Debt**

  Middle income Americans age 50 and older carry more credit card debt, on average, than younger people.[8] We see older Americans today heading toward retirement with fewer assets. When you couple older Americans' lack of assets with the trend of carrying credit card debt into their fifties and sixties, retirement security looks almost impossible. In recent years older Americans have turned to a 'plastic safety net' to see them through a difficult economy. They are often using credit cards to pay for unavoidable or unforeseen expenses.

- **Disparities for Women**

  Women face a greater risk of financial insecurity and poverty than men in retirement. Wage inequality their male counterparts. Employment history for baby boomer women has looked different than the employment history of their male colleagues. Women are less likely than men to engage in full-time year-round work and these decisions affect their retirement security.[9] Women are also less likely than men to receive pension income, and when they do their annual benefits are only half the amount received by men.[9]

  As a result, older women are more likely to face poverty than older men, and women who are unmarried and who live alone are especially likely to be poor in old age.[9] Because of wage disparities, Social Security is crucial for the economic security of unmarried women who live alone at age 65 and over. Without Social Security benefits, more than two-thirds of unmarried women living alone would fall into poverty.

Conclusion

The retirement security of the baby boomer generation is in jeopardy. The number of retirees and longer life expectancy rates, coupled with the aftermath of the Great Recession, has created a looming crisis. Large numbers of Americans will be retiring with inadequate funds. They will be relying on Social Security as their primary income. Given these parameters, it will be very difficult to make changes or cuts to the big entitlement programs for seniors. Senior citizens on fixed incomes will have to make difficult choices when unforeseen or unavoidable costs occur – borrow to pay or go without.

Couleecap, Inc. is a private non-profit 501(c)3 charitable organization created in 1966. Our mission is to fight poverty and promote self-sufficiency for people in the Coulee Region. We identify needs, mobilize resources, and provide quality services to people and communities in four counties of western Wisconsin: Crawford, La Crosse, Monroe, and Vernon. We currently implement more than 50 contracts in the areas of housing, emergency assistance, child and family development, business development, employment, transportation, and health. Each year, Couleecap helps more than 17,000 families work towards self-sufficiency.

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