5 lies people tell themselves about saving for retirement

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By Chuck Jaffe 14 hours ago

The last week of February is "America Saves Week," but you're not going to celebrate it.

There won't be cake in the office or television specials to watch. Were it not for articles like this one, you probably wouldn't know it exists.

Moreover, if the effort — started in 2007 by the American Savings Education Council — was properly named, it would be called "America Doesn't Save Enough Week."

We are all schooled in the idea that there are lies, damned lies and statistics, but the truth when it comes to Americans and retirement savings is that most people are lying about where they fall in the statistics, and that there will be hell to pay when the truth finally comes out.

This week the Employee Benefit Research Institute said that the aggregate national retirement savings deficit is about $4.13 trillion for all U.S. households led by those between ages 25 and 64. The $4 trillion shortfall from working families is equal to more than 15% of all U.S. retirement assets, according to the Investment Company Institute, and the total assets include monies for people already in retirement. The more that gap grows, the worse the national outlook for lifetime financial security for all.

EBRI is saying that's the amount people have not saved, leaving most people at risk of not having retirement income sufficient to cover average expenses, long-term care costs and other uninsured health-care costs for the rest of their lives.

For those people facing projected shortfalls, the numbers are ugly, with early baby boomers looking at a shortfall of $71,300 per person in a married household; single men fall $93,575 short and single women stand more than $104,800 in the hole. The numbers get worse for late boomers and Gen Xers, whose only real saving grace is that they have more time to play catch-up and change the narrative in their financial lives.

Those shortfall numbers actually play out over a lifetime; someone who is $100,000 short when they retire is going to generate roughly $4,000 less income on their savings per year (assuming they can maintain their nest egg while generating and living off a return of 4% a year). If they can't live off their reduced income without touching the savings they do have, then every withdrawal is going to cut into future income and further reduce their standard of living.

As part of America Saves Week, the American Savings Education Council will release its 2015 National Survey Assessing Household Savings, and there's just no reason to expect the results to be markedly different from a year ago, when only one-third of Americans felt prepared for their long term financial future.

“As messy as real life can be, I don’t know that there is anything out there that truly allows an individual to forecast their situation with real accuracy,” said Jack VanDerHei, research director at the Employee Benefits Research Institute. “Our model is good for public policy and for looking at the big picture, but the truth is that people are going to live these numbers and there’s not a great tool for really projecting what someone needs as an individual.”

There is a rule of thumb, coming from a Fidelity Investments study done in 2012, which showed that employees need eight times their ending salary in savings in order to meet basic retirement income needs. Fidelity’s target was replacing 85% of pre-retirement income, and they set up mileposts for measuring progress along the way, noting that a worker should save about one times his or her salary by age 35, three times pay by 45 and five times their salary when they reach age 55.

That brings us back to the lies people are telling themselves about the statistics. In my experience, five stand out to me; if you’re saying these things, you need to celebrate America Saves Week by reading the studies, evaluating your situation and adjusting your attitude:

‘I have time to catch up.’

Time is just one component of the savings issue. If the financial hole you dig while raising the family and establishing yourself is deep enough, there may never be enough time.

Moreover, “catching up” may require changing habits, spending less, setting aside more and perhaps working longer and delaying retirement. That’s possible, but it also assumes that your plans aren’t derailed by job loss — having to find a new job as a senior can be an ugly, disheartening experience — or health concerns.

‘I’m planning to die broke.’

Retirement savings is about building a nest egg that lasts a lifetime, and financial advisers want that money to outlive savers and pass to the next generation, because that is the only way to be sure that you live out all your days in financial comfort.

Dying broke means exhausting assets as your life is exhausted; as much as financial advisers hate the idea, there’s nothing wrong with it.

The problem is that your timing must be perfect; otherwise, you’ll spend the end of your life as a burden on your family, with money a constant worry.

No one is required to pass along an inheritance, but try not to leave your loved ones saddled with your financial woes.

http://finance.yahoo.com/news/5-lies-people-tell-themselves-082035411.html.

‘No one in our family has ever needed long-term care. When our time comes, we don’t linger.’

My mother actually said this to me years ago, during a conversation on long-term care insurance, and I certainly hope she is proven right. Meanwhile, that’s not a financial strategy, so much as wishful thinking.

Life doesn’t always play out to your plans and hopes, nor does it always replicate the lives of your forebears. With any assumption you make about your life in retirement, planning requires asking one key question: “What if I’m wrong?”

‘Investment companies are just trying to scare us into keeping money with them.’

Yes, the more you have on account, the more financial-services companies make from you. And, yes, you can make it just fine without ever achieving their “perfect” levels of retirement saving.

But retiring comfortably for the rest of your life takes a lot of money. If you don’t have it, the investment companies aren’t fooling about the hardships you will face.

‘When the time comes, if I don’t have enough, I’ll adjust.’

If you haven’t adjusted your habits to save now, there’s no reason to expect you will in the future, because you will always put off your definition of when the time is coming.

Ultimately, however, you will adjust, because as you run out of money you will have no choice.

Better to adjust in small ways now.

Chuck Jaffe is a senior MarketWatch columnist. His work appears in many U.S. newspapers. Follow him on Twitter @MKTWJaffe.

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