

RETIREMENT

A Retirement “Heat Map”: What’s Trending

Times are changing for retirees. Those approaching that milestone today, or already past it, are likely to see a new set of opportunities and challenges.

For many, 65 is no longer the magic retirement age. Some have the financial wherewithal and the desire to leave their jobs early; others retire later. Indeed, almost 20% of Americans today are still working past 65—and some much longer—either because they wish to or need to. And so with retirement more a customized process than a moment in time, what issues arise? “Heat maps” highlight important trends; here’s ours on retirement:

Less Certainty

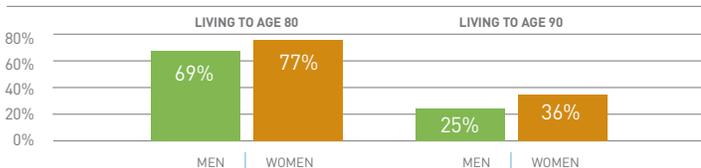
Transitioning into retirement today comes with lots of questions. A key driver of the new uncertainty is the near-demise of “defined-benefit” (DB) pension plans in the corporate sector. Once the mainstay, DB plans (which assure predetermined income funded by employers) now cover a small minority of private-sector workers. In their stead are defined-contribution (DC) plans, funded and allocated largely or totally by employees. Since employees usually invest in the unpredictable securities markets, they may wind up in worse shape than if they had DB plans. More dangerous is a decision by employees *not* to fund their plans. In either case, they face the scary possibility of outliving their money.

Bigger Upside?

Uncertainty is a double-edged sword: DC plans can leave workers with a windfall. And apart from monetary issues, since the huge Baby Boomer generation is retiring, more and more leisure and self-realization activities are becoming available, especially in response to...

FIGURE 1: YOU SHOULD PROBABLY PREPARE FOR A LONG RETIREMENT

ODDS OF A 70-YEAR-OLD LIVING ANOTHER DECADE OR TWO



Sources: Based on Social Security Administration mortality rates for 2014, cited in finder.com

...Longevity

About one out of every three 65-year-olds today will live past 90, the Social Security Administration tells us. This is another double-edged sword: The extra years can be great, but the longer you live, the greater the chance you’ll require...

...Long-Term Medical Attention

The odds today are almost 50/50 that at least one member of a 65-year-old couple will live to 90. (See Figure 1 below for more information). This is another double-edged sword: The extra years can be great, but the longer you live, the greater the chance you’ll require...

The Blessing and Limits of Social Security

Social Security is rightfully beloved, and it’s *not* going broke. But it typically replaces only about 40% of pre-retirement income; most retirees need between 70% and 100%. So finding other funding sources is critical, especially today, when so many retirees are funding for themselves financially. For more information on Social Security, see our new white paper (peoples.com/wealth).

Savings, Savings

Accumulating a nest egg for retirement—one not totally dependent on a DC plan and Social Security—is more important than ever. Ditto for figuring out a spending budget: When the earned income stops, will easing the amount annually to account for inflation work?

Financial Advice

Since workers have become more responsible for securing their own comfortable retirements, many rely on expert advice. For most retirees, that includes not abandoning stocks; their growth potential can help portfolios last through longer retirements.

What Hasn’t Changed

Some things about retirement have *a/ways* been trending. It’s always come with dislocation, especially for those whose identities were closely tied to their careers.

But it can also be a joyous transition, when retirees spend more precious time visiting with their families and following their own interests and passions.

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