

# Boomers face turbulent 60s all over again — in retirement

**FINANCE:** Failure to save puts the golden years in jeopardy.

**By Dave Carpenter** The Associated Press

CHICAGO — Through a combination of procrastination and bad timing, many baby boomers are facing a personal finance disaster just as they're hoping to retire. Starting in January, more than 10,000

baby boomers a day will turn 65, a pattern that will continue for the next 19 years.

The boomers, who in their youth revolutionized everything from music to race relations, are set to redefine retirement. But a generation that made its mark in the tumultuous 1960s now faces a crisis as it hits its own mid-60s.

"The situation is extremely serious because baby boomers have not saved very effectively for retirement and are still retir-

ing too early," says Olivia Mitchell, director of the Boettner Center for Pensions and Retirement Research at the University of Pennsylvania.

There are several reasons to be concerned:

■ The traditional pension plan is disappearing. In 1980, some 39 percent of private-sector workers had a pension that guaranteed a steady payout during retirement.

**BOOMERS A3**

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## BOOMERS

FROM PAGE A1

Today that number stands closer to 15 percent, according to the Employee Benefit Research Institute.

■ Reliance on stocks in retirement plans is greater than ever: 42 percent of those workers now have 401(k)s. But the past decade has been a lost one for stocks, with the Standard & Poor's 500 index posting total returns of just 4 percent since the beginning of 2000.

■ Many retirees banked on their homes as their retirement fund. But 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 boomers.

Michael Vanatta, 61, of Vero Beach, Fla., is paying the price for being a boomer who enjoyed life without saving for the future. He put a daughter through college, but he also spent plenty of money on indulgences, such as dining out and the latest electronic gadgets.

Vanatta was laid off last January from his \$100,000-a-year job as a sales executive for a turf company. And with savings of just \$5,000, he's on a budget for the first time. In April, he will start taking Social Security at age 62.

"If I'd been smarter and planned and had the bucks, I'd wait until 70," says Vanatta, who is divorced and rents an apartment. "It's my fault. For years I was making plenty of money and spending plenty of money."

Vanatta is in the majority. Some 51 percent of early boomer households, headed by those ages 55 to 64, face a retirement with lower living standards, according to a 2009 study by the Center for Retirement Research at Boston College.

Too many boomers have ignored or underestimated the worsening outlook for their finances, says Jean Setzfeld, director of financial security for AARP, the group that represents Americans over age 50. By far the greatest shortcoming has been a failure to save. The personal savings rate — the amount of disposable income unspent — averaged close to 10 percent in the 1970s and '80s. By late 2007, the rate had sunk to negative 1 percent.

The recession has helped improve the savings rate — it's now back above 5 percent. Yet typical boomers are still woefully short on retirement savings. Even those in their 50s and 60s with a 401(k) for at least six years had an average balance of less than \$150,000 at the end of 2009, according to EBRI.

Signs of coming trouble are visible on several other fronts, too:

■ **Mortgage Debt.** Nearly two in three people age 55 to 64 had a mortgage in 2007, with a median debt of \$85,000.

■ **Social Security.** Nearly 3 out of 4 people file to claim Social Security benefits as soon as they're eligible at age 62. That locks them in at a much lower amount than they would get if they waited.

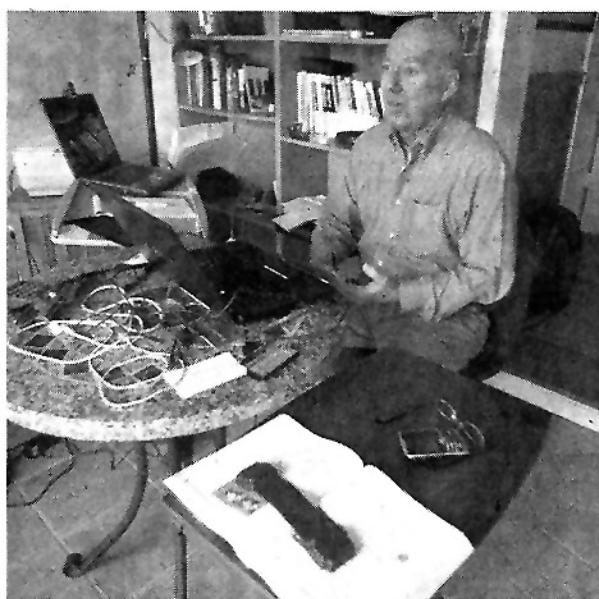
The monthly checks are about 25 percent less if you retire at 62 instead of full retirement age, which is 66 for those born from 1943 to 1954. If you wait until 70, your check can be 75 to 80 percent more than at 62. So, a boomer who claimed a \$1,200 monthly benefit in 2008 at age 62 could have received about \$2,000 by holding off until 70.

■ **Medical Costs.** Health care expenses are soaring, and the availability of retiree benefits is declining.

"People cannot fathom how much money will be needed to simply cover out-of-pocket medical care costs," says Mitchell of the University of Pennsylvania.

A 55-year-old man with typical drug expenses needs to have about \$187,000 just to cover future medical costs. That's if he wants to be 90 percent certain to have enough money to supplement Medicare coverage in retirement, according to the Employee Benefit Research Institute. Because of greater longevity, a 65-year-old woman would need even more to cover her health insurance premiums and out-of-pocket health expenses: an estimated \$213,000.

■ **Employment.** Boomers both need and want to work longer than previous generations. But unemployment is near



Michael Vanatta sits in his Vero Beach, Fla. apartment working on one of his blogs. Vanatta, 61, is paying the price for being a baby boomer who enjoyed life without saving for the future.

**J Pat Carter**  
The Associated Press

### Avoiding retirement shortfall

As Theodore Roosevelt once said: "Old age is like everything else. To make a success of it, you've got to start young."

But it's not too late for baby boomers who put off retirement planning and haven't saved enough. Here are five key steps:

■ **1. Have a plan.**

Educate yourself about your complete financial picture and your options. You don't have to obsess about reaching The Number — the amount a financial adviser or retirement calculator says you'll need to retire comfortably. But having an idea of your expected monthly income and expenses in retirement is essential.

■ **2. Save more**

Set savings goals you can reach, step by step. If you're still working, allocate any money from raises to retirement savings. Increase your 401(k) contribution by 1 percent increments every few months so you adjust better to having less to spend.

■ **3. Retire later**

Working longer doesn't mean you have to save every extra penny. A key benefit of this approach is that it allows your existing savings additional time to grow, so you may be able to spend more on leisure during those years while you're still healthy and active.

■ **4. Scale back your lifestyle**

Recognize that you'll need to make compromises to reach your goals. That could mean having one less car, eating out less often or any number of other cutbacks. Consuming less will take an adjustment but doesn't have to make you miserable. Staycations can be fun, and you can stay engaged and active through social relationships or volunteering. Just be sure you don't cut back so drastically that you fail to stick with it.

■ **5. Delay taking social security.**

If you file for Social Security benefits as soon as you're eligible at age 62, your payments are reduced by about 30 percent from what they would be at full retirement age. (See [www.ssa.gov/retire2/retirechart.htm](http://www.ssa.gov/retire2/retirechart.htm) to find out your full retirement age, which is 66 to 67 depending on birth year.) After full retirement age, the monthly check increases by 8 percent for each additional year you delay up to age 70.

"If you start collecting sooner and live longer than your life expectancy, you're in greater danger of running out of money," says David Mendels, a certified financial planner with Creative Financial Concepts in New York City.

— The Associated Press

### On the Web:

[www.aarp.org/work/retirement-planning/retirement\\_nest\\_egg\\_calculator.html](http://www.aarp.org/work/retirement-planning/retirement_nest_egg_calculator.html)

[www.ssa.gov/retire2/retirechart.htm](http://www.ssa.gov/retire2/retirechart.htm)

10 percent, and many have lost their jobs.

The average unemployment period for those 55 and older was 45 weeks in November. That's 12 weeks longer than for younger job-seekers. It's also more than double the 20-week period this group faced at the beginning of the recession in December 2007.

If financial neglect turns out to be many boomers' undoing, challenging circumstances are stymieing others.

Linda Reaves of Silver Spring, Md., never had much opportunity to save as a single mother raising two sons and a daughter. After holding a variety of positions over the years — hotel office manager, research analyst for a mortgage company, hospital mental health counselor — she was still living paycheck to paycheck. Then she was laid off in 2007 at the age of 57.

She entered a training program to learn new skills, but all she has found since is a string of temporary jobs. In her daily quest for clerical or administrative work, she competes against much younger applicants.

Reaves, who turns 60 this month, plans to work until she's at least 70 and then wants to travel, even if she doesn't

know where the money will come from.

"I just keep going. I don't really worry about it," she says.

Add this all up, and there's a "slow-burning" retirement crisis for boomers, says Anthony Webb, a research economist at the Center for Retirement Research.

"If you have a crisis where the adverse consequences are immediately clear, then people understand that they have to do something," Webb says. "When the consequences will be felt 20 or 30 years in the future, the temptation is that we kick the can down the road." As a result, he believes many won't change their behavior.

For less affluent boomers, it won't take that long to feel the pain of poor planning. Concerns about financial trouble will hang over many of those 65th birthday celebrations in 2011.

Many seem to view their plight through rose-colored granny glasses. An AARP survey last month of boomers turning 65 next year found that they worry no more about money than they did at age 60 — before the recession or the collapse of home prices. But in an acknowledgment of reality, 40 percent said they plan to work "until I drop."