Making the Most Out of Less

By STEVEN GREENHOUSE

JEFF NELSON, a manager in the Utah Health Department, says he constantly scolds himself for not setting aside more for retirement. “It’s always there, like that squeaky screen door in back that you want to fix , but you never get to,” said Mr. Nelson, 40, the father of a 10-year-old and 7 -year-old. “I feel I have more pressing needs. I have to make the house payment. I have to make the car payment.”

“I know you’re supposed to save more for retirement,” he added, “but I haven’t even started saving for college for my kids.”

Mr. Nelson, a state employee, may be a couple of decades from retirement, but he is in line to receive a pension someday, and that alone puts him in better shape that many Americans. But as he well knows, it is not likely to be enough. Sad to say, people of Mr. Nelson’s generation, the baby boomers’ children — in their 20s, 30s and 40s — are likely to have an even rougher retirement than their parents, many economists say.

And for the baby boomers themselves, retirement may not seem so rosy as it once did.

This year, the first of the nation’s 79 million baby boomers turn 65, and while millions dream of comfortable retirements, perhaps in Boca Raton, Fla., or Palm Springs, Calif., many will discover they will have a tough time in retirement.

“The baby boomers will be the first generation that will do worse in retirement than their parents,” said Teresa Ghilarducci, an economics professor and retirement specialist at the New School for Social Research in New York. “And the next generation of retirees will do a lot worse; they fall off a cliff,” largely because so few of them will have the traditional pensions that many of their parents and grandparents had.

Americans planning to retire in five to 10 years could see their golden years tarnished by a confluence of circumstances, including depressed housing prices, soaring health costs and a fitful stock market that has pummeled 401(k) plans. Not only that, company after company has frozen or eliminated its pension plan, and many members of Congress are pushing to scale back Social Security benefits — even though half of the nation’s retirees receive at least 90 percent of their income from Social Security. Its benefits average $14,000 a year. So perhaps it should not be surprising that 45 percent of America’s baby boomers are “at risk,” without enough to maintain their living standards after they retire, according to the nation’s leading center on retirement studies, the Center for Retirement Research at Boston College.

Even one development that might seem to be good news — longer life spans — could worsen retirement woes, because more and more people will live for years after they have spent their nest eggs. For couples retiring now, the chances are 50 percent that one member will live to 92.

But don’t rush to press the panic button, retirement specialists say. Smart planning — and aggressive saving — can go far to ensure a comfortable retirement. Whether you are 29 or 59, put far more into your retirement accounts, they say. Many recommend that you set aside at least 10 percent of your income.

And knowing how lackadaisical millions of Americans are about saving for retirement — and acknowledging that many are struggling just to make ends meet — many retirement specialists are urging Washington to create a savings vehicle, sometimes called an automatic individual retirement account or guaranteed retirement account, that would supplement Social Security and require workers (and perhaps employers) to contribute several percentage points of employee earnings.

If you have already retired, there are strategies to help make your retirement years more prosperous and secure. Buying an annuity can ensure you a steady income stream until the day you die, above and beyond Social Security. Some advisers also recommend that people 62 and older consider reverse mortgages, though they often offer less money than several years ago because of the decline in housing values.

Another increasingly popular, if unloved, strategy to consider is semiretirement, taking a part-time job or starting a small business to ensure an adequate income.

“No one wants to say longevity is a problem, but you have to finance your retirement for a longer period of time,” said David Certner, the legislative policy director for AARP. “We certainly encourage people to continue working that extra year or two. That means not only are you not drawing down for an extra year or two, but you’re building up your assets another year or two.”

Phyllis Kaplan, of Highland Park, Ill., began receiving early Social Security payments last August, at 63, because she had lost her job as a graphic designer for a publishing house. She rolled over money from her 401(k) into an I.R.A., but she said that still left her without enough income, even with $1,200 in monthly Social Security benefits.

So Ms. Kaplan started working 10 days a month in a bead shop, making use of her artistic flair.

“I realized I had to continue working because I can’t pay my bills,” said Ms. Kaplan, who has been divorced for 24 years. “I have no pension, and I have to buy health insurance, and this job is helping me develop more of a nest egg.” She noted that Social Security would cut her benefits if she worked more each month.

A new report by McKinsey & Company, the consulting firm, is gloomy about retirement. The report, Restoring Americans’ Retirement Security: A Shared Responsibility, says, “The average American family faces a 37 percent shortfall in the income they will need in retirement,” meaning “the average household will face a retirement savings shortfall of nearly $250,000 by the time of retirement.

“Even before the financial crisis that began in the fall of 2008,” causing 401(k) plans to tumble, “Americans were woefully unprepared for retirement.”

Households in the 60-to-65 age group with incomes of $100,000 to $250,000 a year face a 20 percent shortfall in the income needed to maintain their living standards at retirement, the report says, while households 40 to 59 in that income bracket face a 28 percent shortfall.

For households with incomes of $50,000 to $100,000, McKinsey found, those 60 to 65 face a 10 percent gap in the income needed to maintain their living standards in retirement, but those 40 to 59 in that income group face a 37 percent shortfall.

The shortfalls are even larger for those 30 to 39. The McKinsey report says that group faces the biggest challenge, but “they have the greatest ability to recover by changing their behaviors.” “This group,” the report says, “must rely almost entirely on personal savings” because the payouts from traditional defined-benefit pensions “will provide one-tenth of the retirement income of their parents’ generation.”

At 76, Peter Sonders has some strong retirement advice for younger Americans. A longtime lab technician at an Anheuser-Busch Brewery, Mr. Sonders lives comfortably in retirement in Williamsburg, Va., although he worked 27 years for Rheingold, a beer company that went bankrupt, causing his pension there to wither to $88 a month. Still, Mr. Sonders boasts that he has managed to put together a solid retirement in a way, he says, that many others can.

“The strategy I would recommend is, you have to save ’till it hurts, because even your regular pension plan can go up in smoke,” said Mr. Sonders, who used to be a trustee on union pension funds. “So save as much as you can, well over 10 percent a year. And don’t speculate too much in what you’re investing. And if you ever get a raise, don’t spend the raise, keep saving it and you usually won’t miss it.”

Retirement specialists say a cascade of unhappy factors has dimmed retirement prospects:

¶Social Security benefits will replace just 28 percent of a recipient’s preretirement income in 2030, on average, down from 39 percent in 2002, according to the Center on Retirement Research. The drop will result largely from the increased Medicare payments and higher income taxes Social Security recipients will have to pay.

Financial planners generally recommend that retirement income be 65 percent to 80 percent of preretirement income to avoid a drop in living standards. Social Security recipients face that decline even without more cuts Congress may make to address the system’s long-term financing problems. One idea is to raise the age for full benefits to 69.

¶Low interest rates have translated into paltry yields for many bonds and retirement accounts, making it harder to live off interest alone (although low inflation helps keep pensions and savings accounts from eroding).

¶Not only do fewer than half of private-sector workers participate in a pension or 401(k) plan, but corporations are moving more workers from traditional pensions to the considerably less generous 401(k). At the same time, public-sector workers, many of whom still have generous defined-benefit pensions, are seeing those plans come under attack in New Jersey, Wisconsin and other states.

Jack VanDerhei, research director of the Employee Benefit Research Institute, said, “Unless you’re one of the 40 to 50 percent of the private-sector work force that’s lucky enough to work for an employer that’s sponsoring a retirement plan, the probability that you’ll end up with sufficient money for retirement is de minimis.”

¶Even many Americans with 401(k) plans face problems because workers have a median of about $30,000 in their accounts, while the 55-to-64 age group just before retirement has a median of $78,000, not much to live on in addition to Social Security if you retire at 65 and live 20 more years. As a result of the stock market’s slide during the recession, 401(k) plans lost $2.8 trillion in value, tumbling by more than 40 percent — though Wall Street’s recent rise has allowed them to recoup more than half that loss.

Alicia H. Munnell, director of the Center on Retirement Research at Boston College, said 401(k) plans were far from ideal for retirement, not least because they are so complicated and many Americans have little investment expertise. Workers, she said, have to decide whether to join their employer’s plan, how much to contribute, how to invest their contributions, when to rebalance, what to do about company stock, whether to roll over accumulations when changing jobs and how to withdraw the money in retirement.

“Every step along the way, a significant fraction of participants make serious mistakes,” she said.

Retirement specialists are overflowing with advice about what to do to prevent a drop in living standards.

For wealthy as well as many middle-class Americans, Mr. VanDerhei, said, “Any overall rule of thumb I give would be silly, but I plead with people, before you retire please go see somebody, please spend a couple of hundred dollars to see a financial planner to discuss the correct drawdown strategy, annuitization and other matters.”

Mr. VanDerhei said annuities were an excellent idea for many people, though using all one’s retirement savings for an annuity “doesn’t make sense for a lot of people.” He also urged people to seriously consider long-term care insurance to help protect against nursing home costs wiping out their savings.

Whether you are wealthy or middle class, retirement specialists emphasize the importance of rebalancing your financial assets as you grow older, moving a higher percentage out of equities and into less volatile investments.

While Americans in their 20s and 30s are not saving nearly enough for retirement, many specialists agree, they see one optimistic sign — two-fifths of the 401(k) balances of new hires is being placed in balanced funds, including target-date funds, those that invest based on when an employee plans to retire, to help provide protection from sudden market volatility.

Recognizing that many 401(k) investors rarely change their own asset allocations, specialists recommend target-date funds because the fund managers reallocate the funds toward less risky investments as workers age.

For moderate- and low-income Americans, retirement specialists emphasize the importance of saving as much as you can, although those Americans have the least ability to put money aside.

“Basically, people don’t save on their own,” Ms. Munnell said. “They only save through organized institutional mechanisms. Lecturing people to save doesn’t work.”

The Pension Protection Act of 2006 created incentives for more companies to funnel all their employees into 401(k) plans, but many small businesses have not done so, leaving millions of workers without retirement plans.

Some retirement specialists and advocacy groups, noting that one-third of retirees get 100 percent of their retirement income from Social Security, often just $14,000 a year, say more needs to be done to help low- and moderate-income retirees.

Karen Friedman, executive vice president for the Pension Rights Center, a nonprofit group, is urging Congress to create what are often called guaranteed retirement accounts, to which employees and employers would contribute, with each giving perhaps 3 percent of an employee’s pay. She also said the federal government should provide a tax subsidy to give workers, especially low-income ones, an incentive to contribute.

“Congress,” Ms. Friedman said, “shouldn’t be focusing on cutting Social Security — that’s the part of the retirement system that works best — but on strengthening the private side of the system to make sure everyone has adequate and secure benefits for retirement.”

But many business groups, as well as Mr. VanDerhei's institute, oppose requiring employers to contribute 2 percent or 3 percent as part of such a system, arguing that companies already face plenty of government mandates.

Professor Ghilarducci had frank if unpleasant advice about how Americans might deal with the looming problem of saving too little to maintain their living standards in retirement.

Asserting that millions of people have been overspenders who have lived beyond their means, she said: "People do need to save more money for retirement. Unless changes are made to give people better pensions, my advice is to ratchet down your living standards, so when you have less money during retirement you won't be so disappointed."

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