



Fear being retired and poor? Time to plan

Americans are living longer, pensions are shrinking, and Social Security is uncertain. 'Today' financial editor Jean Chatzky says to save for retirement

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Americans are living longer. Retirement ages are being pushed back. Employers are ending traditional pensions and cutting back on retiree health care. The future of Social Security remains uncertain.

Sound scary? Not enough to kick Americans into high gear on their retirement savings, according to a new study called the National Retirement Risk Index from the Center for Retirement Research at Boston College.

It shows that 43 percent of working-age households are at risk of being unable to maintain their current standard of living in retirement, up from 31 percent in 1983. Generation Xers, those born from 1965 to 1972, face the greatest risk.

Those numbers represent a conservative estimate, says the center's director Alicia Munnell. For example, it assumes workers retire at age 65, when they generally retire a few years earlier. "The purpose of this index is to highlight how ill-prepared people are for retirement," says Alicia Munnell, the director of the center. "A large number of households are at risk and to avoid having a big decline in standard of living in retirement, they are going to have to do something."

But what? Read on.

Calculate your number. Nearly 60 percent of workers have never bothered to try to figure out how much money they will need for retirement, according to the Employee Benefit Research Institute.

That's a big problem. You cannot create a plan to reach your goal if you do not know what the goal is. And no one number suits everyone. Maybe you want to travel the world while your neighbor prefers to spend time at home with family. To crunch your own number, use the calculator at money.com/tools, or enlist the help of a financial adviser. You can find fee-only planners at garrettplanningnetwork.com.

Track, and curb, your spending. Once you have a goal in mind, you'll have to find the money to sock away in order to achieve it.

For most people, that means cutting back on your spending. To find places to slash your budget, track every penny you spend for a single month. "Even if it is difficult, just do it," says Diane McCurdy, a certified financial planner in Vancouver and author of "How Much is Enough? Balancing Today's Needs with Tomorrow's Retirement Goals." She adds: "It is one of the most powerful things you can do." What you'll find as a result are the places you're spending money unconsciously. Get rid of those and you'll free up a boatload of cash.

Take advantage of 401(k)s and IRAs. Household heads approaching retirement in 2004 had only an average \$60,000 in their 401(k) and IRA accounts.

That's not going to get you through too many years of a greatly reduced income. Don't put yourself in that rocky boat. Sign up for your 401(k), and contribute at least enough for the employee match. If you don't have access to a 401(k), or you want additional savings, open an individual retirement account. Choose a Roth over a traditional IRA if you expect your tax rate to increase during retirement. You contribute after-tax dollars to a Roth or traditional IRA and withdraw money tax-free in retirement.

Finally, automate your contributions through your employer or bank. Some companies even allow you to automatically increase the percent you contribute each year. If not, remember to do it once a year, or at least every time you land a raise. The index shows that by saving only 3 percent more, the percent of Generation X households at risk drops by 11 percentage points.

Invest more aggressively. One of the latest rages is choosing a fund based on your expected retirement date. The fund then automatically rebalances as you approach retirement.

Yet some of these funds remain more aggressive than others, so consider shopping around for funds with more assets in equities. For example, the T. Rowe Price's 2010 fund includes about 65 percent of its assets in stocks, while Fidelity's 2010 fund invests only about 50 percent in equities. Remember, if you invest too conservatively for fear of losing some of your principal, you may not reach your goal.

Work longer. Retiring at 67 instead of 65 reduces the households at risk by 11 percentage points. Retiring at age 63, however, increases the households at risk by 10 percentage points.

A few extra years in the workforce not only gives you additional income but also can prevent you from tapping your investments, which gives them more time to grow. True, sometimes, you have little control over when to retire. Health issues and company changes may force you out of the workforce earlier than expected. But if you are healthy and enjoy your work, a few extra years on the job can mean a great deal of extra security.

Besides, can you really play golf for 25 years?

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