

SPEND LESS NOW, LIVE IT UP LATER

A little “delayed gratification” may help you retire more comfortably.

Provided by Tri Pillar Investments, LLC

“The measure of success is not whether you have a tough problem to deal with, but whether it is the same problem you had last year” John Foster Dulles

Baby boomers are known for wanting more out of life - and for living life on their own terms. They also get a bad rap as a generation weaned on instant gratification - wanting it all now, wanting to have it both ways.

It is neither wise nor truthful to paint a generation with a broad brush. What we do know in 2010 is that more Americans than ever are poised to retire. In fact, 10,000 Americans will turn 65 each day during the next 18 years.¹ Will their retirements match their expectations?

Are boomers in for a collective shock? Many boomers are used to affluence and expect creature comforts in retirement. Yet many may not understand how much money retirement will require. A 2010 study from the non-profit Employee Benefit Research Institute estimates that about half of “early” boomers (those aged 56-62) will face a retirement shortfall - someday, they will have inadequate income to pay medical costs and core retirement expenses. EBRI also estimates that 43.7% of “late” boomers (those aged 46-55) are likely to exhaust their retirement savings as well.²

Investing aside, what about the way we spend? EBRI research director Jack VanDerhei told TheStreet.com that beyond federal policy decisions, “[what is] even more important is to identify which of those households still have time to modify their behavior to achieve retirement security, and how they need to proceed.”²

What is a need and what is a luxury? Now here is where it gets interesting. In a new survey of more than 1,000 boomers conducted by MainStay Investments, more than half the respondents identified “pet care” and “an internet connection” and “shopping for birthdays and special occasions” as basic needs. Almost half checked off “weekend getaways” and “professional hair cutting/coloring” as basic needs. Perhaps the definition of a “basic need” is expanding. Or perhaps we have gotten so used to these perks that we can’t imagine living without them (and not spending money on them).³

Boomers are necessarily growing more pragmatic. The MainStay survey results hint at a shift in their financial outlook. The survey found that 76% of boomers were willing to work longer and save more in pursuit of more retirement comfort.³

Additionally, 40% of those surveyed said they will have to delay retirement in order to afford their desired lifestyle - and 47% said they would be willing to live in a smaller house to have more of the above luxuries/needs. A whopping 84% of respondents indicated they would be willing to allocate a portion of their assets so that they might

have consistent lifelong income. However, just 52% of them were in contact with a financial consultant.³

We can learn from our elders. Look at the sacrifices made by the “greatest generation”. World War II demanded so much from Americans, not only in the theatres of combat but at home. For several years, new cars weren’t manufactured, travel was discouraged, and food, clothing and gasoline were rationed. The entire economy was rearranged, and more than 40 million Americans had to start paying federal income tax.⁴

This generation certainly understood delayed gratification. Yet with all that economic and political upheaval, its members collectively enjoyed the most comfortable retirement in American history (and perhaps the history of the world).

Will we pay for today’s lifestyle tomorrow? Financially, that is a risk we face. Many of us have not saved enough for retirement, and the financial markets have been especially volatile of late. So it only figures that spending less and saving more today could help us out tomorrow. Who knows - if some extra effort is put in now, we may end up with enough money to “live it up” later.

Citations

1 - sacbee.com/2010/08/29/2990176/baby-boomers-signal-shift-in-what.html [8/29/10]

2 - thestreet.com/story/10806795/even-wealthy-face-retirement-shortfall.html [7/15/10]

3 - freerisa.com/news/fe_daily.aspx?StoryId={66D70228-CEFE-4782-9058-F2F2DAB68DD1} [8/5/10]

4 - nationalww2museum.org/education/for-students/america-goes-to-war.html [10/1/10]