Listen Up Generation Xers and Millennials

You'll Need to Work Longer, Save More and Spend Less to Retire Well

By Brittany TAYLOR, CFP®
Principal, Senior Financial Advisor

THE GOOD NEWS IS that life expectancies continue to increase. Healthier lifestyles and medical advances are keeping older people alive and active longer. Current data gives a 65-year-old married couple a 50 percent chance that one of them will live to age 93 and a 27 percent chance to age 97.

There is no reason to expect this trend won't continue. But there's a challenge that comes with a longer life, amassing the income to get you through those additional years. Generation Xers and millennials will have to work longer, save more and spend less to support themselves through a long retirement.

Retiring well will require overcoming several obstacles:

- **Health Care Costs.** Health care, including health insurance, is estimated to increase 5.8 percent annually going forward. At that rate, the estimated cost for health care for a 65-year-old couple through their retirement years, currently $285,000, will add up to $1,546,000 30 years from now.

- **Available Fixed Income.** Defined benefit plans, the most common employer-provided retirement package in the past, are no longer available to most young workers. Only 4 percent of current workers have a defined benefit pension plan—and many, maybe most, companies that still have them in place are looking for ways to reduce the benefit. They are being replaced with so-called "defined contribution plans," where an employer's contribution is typically limited to matching a portion of the employee's contribution.

- **Social Security benefits might not exist at current levels.** What will happen to dwindling Social Security funds is debatable — has been hotly debated for a couple of decades now — but we have seen an increase in the qualifying Full Retirement Age in the past, and the elimination of advanced spousal planning benefits, both efforts to preserve Social Security by reducing benefits or restricting access.

Current data gives a 65-year-old married couple a 50 percent chance that one of them will live to age 93 and a 27 percent chance to age 97.

Many people spend more on their homes than their incomes justify, including what mortgage companies approve as feasible monthly payments.

- **Debt.** Generation X has been harnessed with huge amounts of student loan debt and millennials are not far behind. The average cost of college continues to outpace inflation.

  Many people spend more on their homes than their incomes justify, including what mortgage companies approve as feasible monthly payments. Couples often find themselves with little left after a monthly payment.

- **Juggling expenses and savings**. Consider the lack of defined benefit plans, questions around the future of Social Security, longer life expectancies and higher healthcare costs and it becomes obvious that younger generations will need to save significantly more for their retirement than their parents and grandparents did. Additionally, everyone should have an emergency savings fund along with life and disability insurance ensuring our families will be protected in the event of an early death or disability. And of course, savings will be required to fund children's educations. All of these items are financially responsible but ultimately are spreading your dollar thinner.

- **Frivolous spending.** Ideally, we would all love to buy everything we want and still max out our retirement plans and our kids' college funds. But most people don't make that kind of money. You can enjoy your life now without sacrificing your future by prioritizing what is important and reducing frivolous spending. Don't fool yourself into delaying saving, thinking you can catch up later. No one is invincible; few of us either will be able or want to work until we die.

These obstacles can be overcome:

- **Start saving early and take advantage of the retirement plans available to you.** The sooner you start saving the better off you will be. If you wait until the last five to 10 years before retirement you will not likely be able to save what you need for the retirement you want. The conversations I have with people who come to me with such a challenge are difficult. The ones with people who come after they are already retired without sufficient savings are even tougher; their only option is to somehow spend less.

  Many people delay saving because they think the amount they can afford to save is not substantial enough. But nothing is too little. At a minimum take advantage of the free money you get from your employer's retirement plan match, then gradually increase the amount you contribute to that plan. People who have money taken from their pay to put into their company savings plan commonly say they don't even notice the money is missing. If you are in a low tax bracket, consider contributing on the Roth side of your 401k or starting your own Roth IRA.

- **Find a balance between saving, paying down debt and living life now.** Create a realistic budget, then review it periodically to ensure you stay on track. Minimize frivolous expenses and prioritize items that are more meaningful to you. Set short term and long-term financial goals and then revisit those to keep yourself motivated.

- **Have realistic expectations for retirement.** Realize that you are likely going to have to work longer than your parents and grandparents did. If your income allows you to sock a ton of money away early, that's admirable. But most people must employ a disciplined savings program to achieve their retirement expectations.

Most Gen Xers and millennials are not saving enough to meet their retirement expectations.

- **Don't rob your retirement for your kids' educations.** Do not steal from your retirement savings to pay for your children's educations. Retirement savings should remain your priority. You won't want to rely on your kids for your retirement lifestyle — and they will have their own priorities.

- **Avoid revolving credit card or personal debt if possible.** Overextended credit can get you in financial trouble quickly. Don't charge more than you can afford to pay off in any given month. And don't rely on a credit card for emergencies; create an emergency savings account for these situations.

- **Sorry, not sorry.** It might be hard to swallow but it's a fact: most Generation Xers and millennials are not saving enough to meet their retirement expectations. Now, well before you retire, is the time to start planning. Consider working with a professional financial advisor who specializes in financial planning. We will help you lay out a plan of action, then stay focused on that plan.

We're here to help. For more information or to schedule a meeting with a professional financial advisor, call 814-459-1116 or email me at btaylor@HBKSwealth.com

Brittany L. Taylor, CFP®

Principal, Senior Financial Advisor, HBKS® Wealth Advisors

As a senior financial advisor with HBKS® Wealth Advisors, Brittany guides her clients in achieving their overall financial goals by establishing and overseeing a plan of action that is specific to their unique economic and life situations.

Brittany started with the firm in 2001. She earned her Bachelor of Arts degree in business management and finance from Mercyhurst University and has her CFP® (CERTIFIED FINANCIAL PLANNER™) Certification.