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Will More of Us Be Working Forever?

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Will more of us be working forever? That is the catchy title of a new report detailing the results of the 2006 Retirement Confidence Survey published by the Employee Benefit Research Institute (EBRI).

The 16th annual survey shows workers still have not saved very much money. In fact, 65% have saved less than \$50,000, excluding the value of their primary residences. Even when we only look at workers 55 years old and older, 50% have saved less than \$50,000.

So what is everyone's plan B? 67% said they were going to work longer!

Sounds good, but is it really feasible? Probably not. Looking at current retirees, only 27% have worked for pay after they retired. Even among recent retirees, just 32% have worked for pay in retirement.

This mismatch of intentions with reality is troublesome, but it gets worse. History suggests many workers will not even work until their expected retirement age. 23% expect to retire by age 61; however, the experience of current retirees shows 40% retiring by 61. The 25% of workers who expect to work beyond 66 also does not square with retirees' experience where only 10% have managed to continue working past that age.

Overall, 38% of retirees left their jobs earlier than they expected, and for most of them, not by choice. The main reasons for leaving early were health problems and changes at their companies such as downsizing. Interestingly, workers in good health and poor health expect to work the same amount of time. As the report says, workers are not taking the risk of an unplanned early retirement into account.

Another disturbing difference between current workers and retirees is the amount of income needed in retirement. The financial press often says retirees need about 70% of their pre-retirement income to live comfortably and this message, be it right or wrong, is getting through. Fifty percent of workers think they will need 70% or less of the pre-retirement income in retirement; and another 28% believe they will need 70-85%. Only 12% are aiming to have income equal to 95% or more of their pre-retirement income.

What do retirees think? More than half (55%) said they needed 95% or more of their pre-retirement income to live comfortably. This might be skewed slightly, as it is impossible to determine if retirees had factored inflation into the equation, but their impressions of their needs are crystal clear.

The report covers other points such as that over 60% of workers are counting on employer sponsored pension plans for some of their retirement income. This is a big problem as only 40% currently have a pension plan. As anyone watching corporate America knows, pension plans are disappearing and are unlikely to make a comeback.

One part of the report discusses how and where people get financial information and advice. Young people tend to rely on family and friends and only as investors get older, they are more likely to use a financial professional. In fact, financial professionals were found to be the most helpful source of information by 40% of respondents. Other sources were well behind with 15% mentioning written materials from their employer and 13% saying friends and family.

We all know saving for retirement is very difficult and it is hard to get started. One interesting tidbit from the report shows that investors who have used tools to calculate their retirement needs are more likely to plan better. This is kind of a chicken and egg problem, as obviously, informed investors are more likely to use financial planning tools. On the flip side, maybe using some tools and understanding their predicament gave other investors the motivation to move ahead. Whatever the case, if you need a little poke with a sharp stick, experiment with a retirement planning tool – your sweaty palms might just get you going. If you need help, call a financial professional, like me, today.

In summary, The 2006 Retirement Confidence Survey should shake the confidence of all Americans. The bottom line is if Baby Boomers do not take care of themselves, all of us are going to have to pick up the tab, one way or another.

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