Not Your Parents' Retirement Planning

by Cullen Douglass, CFP®

People often tell me, "I want to retire like my parents did." It makes sense to want that. Why wouldn't responsible kids want to be like their responsible parents? But there are a few reasons why you can't necessarily model your parents' actions toward such an important financial goal. Two major things have happened since our parents retired that has changed the game.

The first major change is that we're living longer, according to the World Bank. In 1960, the average life expectancy was under age 70. In 2015, the life expectancy was 78 for women and 74 for men. That's an increase of over eight years. Although that may not sound dramatic based on our life span, it can have very dramatic effects on our retirement. What if I told you that if you retired today at age 65, you would need more than twice what your parents had at retirement?

The second major change since our parents' retirement is the disappearance of defined benefit pensions. From 1980 through 2008, the proportion of private wage and salary workers participating in DB pension plans fell from 38 percent to 20 percent (Bureau of Labor Statistics 2008; Department of Labor 2002). The Bureau of Labor Statistics reported in 2008 that only one in every five employees had an employer sponsored pension. This means employers are playing a smaller role in employees' retirement. Because of added pressure on profitability and earnings — along with employees living longer — it's understandable why this has changed.

That is the bad news, but there is some good news. From 1980 to 2008, the percentage of workers contributing to defined contribution plans has increased from 8% to 31%, according to research from the Social Security Administration. Defined contribution plans like 401(k)s are owned by the employee and transferable once you leave your job. So, the good news is that you own the plan and have more control over the way it's invested. The simple key is to fund it. Studies show that people should plan to replace 70%

to 80% of their income. If your employer offers some match on your contributions, that can obviously help. Furthermore, because these are qualified employer plans, the contributions are usually pretax and tax-deferred. A pre-tax dollar is worth more than an after-tax dollar.

Because of these shifts, it's more important than ever to not put your head in the sand when it comes to your retirement. Now is the time to find a financial planner and set some goals and objectives for something your parents never had to plan for.

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