Eyes Wide Open: Retirement is 40 Percent More Expensive than Our Parent's Retirement

Today's Montgomery County retirees will have a very different retirement from their parents and grandparents. It is no secret that retirement has become much more expensive than it was even 15 years ago. Interest rates have been at or close to zero for nearly a decade, creating a low expected return environment. The once trusty CDs, savings accounts and U.S. Treasuries are all earning an interest rate which is at or less than the rate of inflation which makes these no-risk investments inadequate to generate income for today's retiree. People are also living longer and more actively due to advances in medical treatment, and medical expenses have become a far greater percentage of the household budget – second only to housing costs.

All of these factors drive home the importance of consistently saving (or more disciplined saving), potentially increasing your current savings levels and then understanding what challenges retirees face today. Today's retirees will need to accumulate at least 40% more than their parents or grandparents to achieve similar retirement outcomes. Saving that kind of money is not easy for many families especially given they should also have savings set aside for emergencies as well as other goals like paying for their kid's college. So, in essence, today's workforce doesn't have the luxury of being as conservative with their long-term investments as their grandparents.

The second aspect creating a more expensive retirement is longevity. As a result of improved medical technologies and treatment, people are living longer. A recent study by the Society of Actuaries found that 33% of males and 50% of women in their mid-50s today will live to age 90. Greater longevity creates a much longer retirement period as well as a greater need for long-term care services which are not covered by one's health insurance plan or Medicare.

For Montgomery County residents who see retirement in their near future, they may need to rethink and reconsider several aspects of retirement in order to live comfortably in their community. Today's retirees simply need more dollars from the start of retirement, or they may have to stay in their job longer than expected or

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work part-time. Working part-time doing something they feel passionate about keeps their mind sharp and is a healthier way to retire. All too often when people retire, they feel a loss. Transitioning from a full-time career to part-time not only provides financial piece of mind, but keeps your mind sharp.

Keep in mind that Social Security has been and will continue to be a great benefit to many retirees. If you are working, there are huge benefits to delaying Social Security until you are between the ages of 66 and 70. Taking Social security at 62 not only locks in a reduced benefit for life, but the benefit is further reduced by any earned income. These decisions should be made with careful analysis and help, so you feel confident that you're not making a mistake or missing out on any opportunities.

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Whether you're in your 40s or 60s, you should be doing everything you can to save for retirement. If you work for a company which does not offer a retirement plan (roughly 40 percent of workers nationwide do not have a company sponsored retirement plan), then be sure to maximize your IRA or Roth contributions and your spouse's IRA or Roth even if he/she doesn't work. If you are self-employed, you should know there are several types of accounts you can open for yourself and sometimes your spouse, too. There are even plans which help the person who works full time for one employer, but also earns money moonlighting.

Retirees should understand that there have been and will be factors which they cannot control, so they should ensure their retirement plan provides for flexibility and agility to meet those challenges with confidence. The key is to be disciplined, save on a monthly or annual basis and not miss out on the great effect of compounded interest. As Albert Einstein once said, "Compound interest is the eighth wonder of the world. He who understands it, earns it….he who doesn't, pays it." MM