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Half Of Us Have Nothing Saved For Retirement

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By Paul Grimaldi, The Providence Journal, R.I.

Nov. 23--PROVIDENCE -- Nancy Hardendorf is about to step into the great unknown for middle-class Americans: retirement.

"I think everybody is afraid ... you never think that there's going to be enough [money]," said Hardendorf, an administrator at Johnson & Wales University.

As many of her friends have retired over the last few years, Hardendorf began wondering whether it was time to quit her job as the university's director of parent programs and begin a more relaxed life.

"This job is very physical," Hardendorf said, noting that she runs 11 two-day campus tours each summer.

Divorced at 61, Hardendorf sat down with a financial planner to figure out how to save enough to retire. Now 64, she said she has enough tucked away.

"I'm going to be able to do OK," she said.

Many people her age aren't so sure. More than half of all working Americans have saved nothing for retirement, including many in the middle class.

Great Recession

The retirement deficit is a deep, dark hole -- measured by the Employee Benefit Research Institute in 2010 at an estimated $4.6 trillion, combined, for Baby Boomers and Gen Xers, Americans born between 1946 and 1981.

"Saving for retirement isn't easy," said Joe Ready, director of Institutional Retirement and Trust at Wells Fargo. "It requires sacrifice, and it's not something people can push off and hope to achieve later in life."

The Great Recession damaged the economy and drained 401(k) and IRA accounts for millions, changing attitudes about investing and saving for retirement.

"The recession taught a lot of people ... the wrong thing. They got out of the market," said Tatjana Meschede, a Brandeis University researcher specializing in economic security.

More information on this calculator

Not only were retirement accounts hit, but during the housing bubble, many people borrowed to buy homes or to pull money out of them by refinancing -- only to find themselves owing more than their properties were worth.

"More and more people who are entering retirement are still paying off mortgages," Meschede said. "[Retirement] is definitely more challenging."

The loss of retirement savings and home values, and the inability or unwillingness to save, leaves a large number of middle-class Americans with the prospect of working well past 65 years old.

A third of the middle class expects to work until at least 80 because they have so little saved for retirement, according to a recent Wells Fargo survey.

"People are very much aware that they have to work longer, especially in communities of color, because they have so little set aside," Meschede said.

Demographic divide

The differences for people based on race, ethnicity and education are evident. Blacks and Latinos lag whites. White households have roughly six times as much saved in retirement accounts, according to a 2013 research report for the Economic Policy Institute.

A Pew Research Center analysis shows the real net worth of Latino and black households fell by 66 percent and 53 percent, respectively, between 2005 and 2009, compared with a 16-percent drop for white households.

"The prospects are much less secured than for whites," Meschede said.

Pilar McCloud got hit with a double financial whammy during the recession.

Laid off from her consumer-lending job at Sovereign Bank after its 2009 takeover by Santander, she now works with the NAACP and runs her own youth-mentoring program.

She earns about $31,000 annually. McCloud's two children are both college students in New York City.

"I'm teetering between the lower middle class and the middle middle class," said the North Providence resident. "I have to budget very well; I keep my expenses to a minimum."

McCloud, 44, developed back problems that required surgery in 2013; she's waiting to see if she qualifies for a disability pension.

"Disability -- it's almost like a punishment," McCloud said. "It's a daily living factor."

As for what will come when she's in her 60s, she has only questions.

"What form of retirement am I going to have?" she asked. "Will I be able to physically enjoy it?

"Will I be self-sufficient, or will my son and my daughter have to support me?"

The safety net

Social Security benefits are an integral part of retirement income security, particularly for lower-income workers.

"It plays such a critical role for keeping seniors from falling into poverty," Meschede said.

On average, Social Security will replace 40 percent of what you earned annually before you retired, according to the Social Security Administration.

Assuming Social Security benefits are not cut, between 83 percent and 86 percent of workers could replace at least 60 percent of their wages if -- and this is a big if -- they also have 30 years of voluntary 401(k) enrollment, according to the EBRI, a Washington, D.C., think tank.

Still, a third of middle-class Americans say Social Security will be their "primary" source of retirement income. For one in three Rhode Islanders 65 and older, it is the only source of income, according to the American Association of Retired Persons.

They shouldn't rely on it, Meschede said. "But the reality shows that a number of them do to a large extent."

More secure futures

Stephen Servidio, 48, and his wife, Jane, 47, are both teachers.

They own a home, with a mortgage, and two cars, one with loan payments.

They have two children, and they're putting money away for college.

"We're saving for what's to come," said Stephen Servidio, a history teacher at Westerly High School. "Will my retirement money run out before I die? I don't know the answer to that."

The Servidios have things going for them that many in the middle class do not. Their combined income puts them at the top of the middle class. In addition to their teachers' pensions, they both contribute to private retirement plans.

EBRI data show that having a defined benefit (pension) at age 65 increases the probability of there being enough money in retirement by 11.6 percentage points, a "strong impact" within the middle class.

But only 13 percent of all workers were covered by pensions in 2013, according to the Center for Retirement Research at Boston College.

Millennials

The typical Millennial -- born between 1980 and 2000 -- has almost nothing tucked away for retirement.

"The problem is not just that young people in general save less than older workers because they earn less -- it is that young people today are actually saving less than their parents did at the same age," according to a report by the liberal think tank Center for American Progress.

Stephanie Rodriguez is a 22-year-old with her first job post-graduation job.

After living hand-to-mouth as she put herself through Johnson & Wales University, the Florida transplant took a job with Décor Craft in Providence.

Her annual salary is about $36,000.

"I am not living paycheck to paycheck anymore like I used to," Rodriguez said.

Still, the youngest of five siblings, she lives frugally.

Rodriguez shares a house near Providence College with four people and doesn't own a car.

She puts a little money into a savings account each week but doesn't contribute to a retirement account. She will have to start paying her student loan debt early in 2015.

Retirement, she said, "is a long way away."

Some Millennials are able to tuck away money for retirement.

Providence residents Brian and Bethany Hodge, together, make more than $80,000 a year. He works for the Providence Warwick Convention & Visitors Bureau. She works for G Adventures, a tour operator in Providence.

The two 29-year-olds contribute to 401(k) plans.

The convention bureau makes a financial planner available to its employees.

"It clearly illustrated where I needed to be" with retirement savings, Brian Hodge said. "Last year, I was coming up a little short. They suggested I add a little bit more."

The couple have been married for three years, and Brian just paid off his student loan.

"I think we're more organized with our finances," said Bethany. "So now we're looking at what that extra money can go to."

Gen Xers, born between 1965 and 1981, have a different perspective on the future. The youngest have time to save for retirement, while time is running out for the oldest.

"Overall retirement-income adequacy prospects for Gen Xers [are] approximately the same as early Boomers and late Boomers," according to the Employee Benefit Research Institute. About half are projected to have enough money for retirement if they continue to save.

Consistent savers

The nonprofit EBRI has a database of 24 million 401(k) accounts. Along with the Investment Company Institute, it took a look at the approximately 7.5 million of those considered "consistent participants." The study found that such steady savers saw a 34.7-percent drop in their average account balance in 2008.

The upside since then has been that consistent participants saw their accounts grow at a compound average annual growth rate of 6.8 percent from the end of 2007 through 2012 -- more than enough to make up for that precipitous drop during the recession.

"The research highlights that contributing and investing in a 401(k) plan consistently results in higher average account balances than the average balance for all plan participants," said Sarah Holden, who coauthored the study.

Multiple lockboxes

People shouldn't look at saving for retirement as storing money in one container but in at least a few and possibly several lockboxes -- Social Security, a 401(k) account, a home, a pension, cash and insurance.

The 401(k) has been around since 1980, when a benefits consultant figured out an obscure provision enacted by the Internal Revenue Service could be used to shelter retirement money from taxes. (The equivalent account for nonprofits is a 403(b), and for government agencies it's a 457(b)).

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Joe Ready, of Wells Fargo, says a 401(k) "conditions people to think that saving money is paying themselves first and is just as important as paying day-to-day bills."

The data show that people who put money in a 401(k) will be better off in retirement than their peers who don't. Those that have both 401(k) savings and a pension will do even better.

For example, those respondents to the Wells Fargo survey between the ages of 40 to 49 with access to a 401(k) have saved a median of $50,000 versus $10,000 for people without retirement accounts.

What you'll need

Estimates of how much money middle-class Americans have saved for retirement vary. Mostly, it's not enough.

For people nearing retirement, ages 55 to 64, the median 401(k)/IRA balance in 2013 ranged from $53,000 to $132,000 for the three middle quintiles of American workers -- people whose annual income ranges from $39,000 to $138,000, according to the Center for Retirement Research at Boston College.

How much money people need depends to some extent on whether one assumes they reduce spending in retirement.

Will they need 100 percent of their pre-retirement income? 80 percent? 70 percent?

It also depends on how long people will live. Will they live to age 75, 85, 95?

A male who retired in 2010 at about 65 can expect a retirement lasting 17.9 years, according to Boston College researchers.

To calculate how much a retiree will need, one rule of thumb is to multiply your annual retirement income from all sources by 22 (actually 21.47), according to the Financial Analysts Journal.

First, estimate how much you will want to spend annually in retirement, figuring in mortgage payments, if any, insurance and medical bills. You should aim for about 70 percent of your pre-retirement annual income.

Let's assume your annual pre-retirement income is $70,000. That would mean you would need $49,000 a year in retirement.

Then, determine how much you will receive annually from Social Security and subtract that number from your annual estimate. That Social Security payment would be about $27,000.

Do the same if you are lucky enough to be among the 13 percent who will receive a pension. Let's assume $10,000 annually.

That would leave another $12,000 a year that has to come from your savings. Multiplying that by 22 means you will need to save $264,000 before you retire.

"Most people underestimate what they're going to need," said Michael T. Ryan, a financial adviser with Professional Planning Group, in Westerly. "I don't have the sense that most people understand how dire the situation is.

"That light bulb needs to go on at 25, not 45."

Uncertainty factor

The financial light went on early for Stephen Servidio, the Westerly High teacher. The chance to get a pension was one of the things that attracted him to the profession about 20 years ago.

"I think my wife and I are doing all the right things," said the soft-spoken 48-year-old.

But Servidio said he and his wife worry about the solvency of their pension funds.

"That really gets to the heart of the issue -- the economic uncertainty," he said. "When you're ready to retire, will the money be there?"

Nancy Hardendorf, the college administrator, said she believes it will be.

After a career in the jewelry industry, she started working at Johnson & Wales in 1999.

"When you're in higher education, you're middle class," Hardendorf said.

Her annual income is between $45,000 and $55,000.

"I pay my bills, but there's not much left over," said the Killingly, Conn., resident. "I own my own home, but I'm careful. ... I'm thrifty out of necessity."

That meant socking away money for retirement.

"I've been saving since college," she said. "There's always been a pension plan or a 401(k)."

She'll supplement her savings with Social Security and a part-time job.

"I'm extremely excited about doing something different," Hardendorf said. "I see myself in a little antique shop."

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