

the hard times guide to retirement security

practical strategies for money, work, and living



mark miller

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Additional Praise for

The Hard Times Guide to Retirement Security

Practical Strategies for Money, Work, and Living

“Mark Miller is an all-around expert on encores, second-acts, and retirement in its many forms, as well as a gifted and eloquent writer. His new guide is as smart and resourceful as he is. Buy it, read it, and follow its wisdom to a better life!”

—MARC FREEDMAN

*Author of Encore: Finding Work That Matters in the
Second Half of Life*

“The Hard Times Guide to Retirement is as important for the boomers to read today as Fun with Dick and Jane in 1955. It is the primer for the next phase of their life. No one understands the financial implications of the future of the boomers more than Mark Miller.”

—MARY FURLONG *Author of Turning Silver into Gold*

“This is the retirement book you need now. Rather than vague, empty promises, it gives you the stark truth. And then explains in concise, well-written prose, what to do about it. Miller is a sure-footed guide whose advice rings with authority.”

—MARY ROWLAND *Author of The New Commonsense Guide to Your 401(k)*

The Hard Times Guide to Retirement Security

PRACTICAL STRATEGIES FOR MONEY,
WORK, AND LIVING



MARK MILLER

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In memory of my parents, Marvin and Rayna Miller, dedicated activists for social justice. And with much love for Shira, Beth, and Asher, who will someday grow old, too. May they benefit from our generation's lessons learned.

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I ENVISIONED *The Hard Times Guide to Retirement Security* as a survey of the best thinking on a wide array of subjects—everything from Social Security and pensions to health care, fifty-plus careers, entrepreneurship, and volunteering. As such, I relied on experts in many different fields for guidance. Many were generous with their time, sharing information and research and agreeing to review and comment on chapters. My sincere thanks go to Andrew Eschtruth, associate director for external relations at the Center for Retirement Research at Boston College; Christine Fahlund and Stuart Ritter, financial planners at T. Rowe Price; Sheryl Garrett, founder of the Garrett Planning Network; Alan Glickstein, senior consultant at Watson Wyatt; Martha Holstein, ethicist at the Health and Medicine Policy Research Group; Cindy Hounsell, director of the Women’s Institute for a Secure Retirement; Marika and Howard Stone, principals of 2Young2Retire; Steve Vernon, president of Rest-of-Life Communications; and Jeff Williams, principal at Bizstarters.com.

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CHAPTER 1

Rethinking Retirement in Hard Times

THE TIMING COULDN'T BE WORSE: The largest generation in our history is approaching retirement age during the worst economic downturn since the Great Depression.

Before the economy crashed, many baby boomers had been holding on to vague notions that retirement would somehow work itself out through their good luck in real estate, in the stock market, or by inheritance.

Whatever the reason, most Americans before they retire have paid little attention to the huge life transition that is coming. We don't have a good idea of how much we need to save for retirement; only 44 percent of workers responding to one survey said they had tried to calculate what they would need, and an equal number simply "guess at how much they will need" for a comfortable retirement.¹ Another survey of Americans 56 to 65 years old showed that almost half of the respondents underestimated the amount of retirement income they would need, and nearly 70 percent overestimated how much they could draw down from their retirement savings annually.² Sixty percent underestimated their odds of living beyond a given average life expectancy. Meanwhile, about half of Americans file for Social Security benefits too early, often cheating themselves out of hundreds of thousands of dollars in lifetime benefits. Only half of all working adults participate in a workplace retirement-savings program. And the average U.S.

household has managed to save just \$60,000 toward retirement.³

Now the crash has ushered in a new economic reality that will be with us for years to come. Real estate values and retirement portfolios are depressed, and job security has evaporated. And even though the economy surely will recover, we're not likely to see the type of sharp bounce-back that characterized the end of many previous recessions. That means anyone planning to leave the workforce in the next five to ten years will be retiring into an economy that looks much as it does today.

The need to build retirement security has never been greater. But one of the main obstacles is the current *concept* of retirement—the idea that people should stop working in their early sixties and take it easy. The number of years that you'll have to fund after you stop working is one of the most important variables affecting retirement security. Paying for retirement has become more challenging in light of recession-ravaged 401(k)s and plunging housing values. And those resources must be spread over a rising number of years. American life expectancy has been expanding at an astonishing rate. An American man turning age 65 in 1940—just a few years after Social Security was enacted—could expect to live an average of another 11.9 years; by 2006, that number had jumped to 16.5 years. For women, the corresponding life expectancy had jumped from 13.4 years to 19.1 years.⁴ Those are just average figures, which means that half of us will live much longer. And the Social Security Administration projects that average life expectancy will keep rising in the decades ahead.

That's good news, of course—but how will we pay for all those additional years of retirement?

The idea of quitting work at a predetermined age dates back to nineteenth-century Germany, where the first system of social security was created in 1889. The system was funded by mandatory contributions from employers and employees, and citizens would be eligible to receive benefits at age 70, an age that was later reduced to 65.⁵ The German system later served as a role model for the U.S. Social Security system that President Franklin D. Roosevelt created during the Great Depression. FDR envisioned Social Security as a response to that era's widespread poverty, signing it into law in 1935 as part of broader legislation that provided for unemployment insurance, old-age assistance, and aid to dependent children. Like the German system, our Social Security law pegged 65 as the age when Americans could retire and begin receiving benefits. That set the stage for widespread expansion of private pensions after World War II, especially in unionized industries such as the Detroit carmakers. By the 1950s, the idea that people should be able to quit work and adopt a leisure-centered lifestyle after age 65 had gained widespread acceptance—and it's been with us ever since.

That approach no longer seems sustainable. The economic downturn, coupled with increased life expectancy, points toward longer working lives for older Americans. That won't be easy to achieve in a weak economy with high unemployment rates, but staying on the job even a few years beyond traditional retirement age can make a tremendous difference in achieving long-term retirement security.

There are no magic bullets or easy solutions to the problem of retirement security. Yet in my work as a journalist covering retirement and aging, I'm often struck by the wealth of good ideas that experts have identified for achieving a satisfying, secure retirement—even in hard

times. These aren't get-rich-quick investment gimmicks, schemes to make millions working part-time from your kitchen table, or come-ons to retire cheaply in Central America. Rather, the best ideas focus on basic blocking and tackling—getting the most from the financial tools already at hand, and making smart decisions about work and lifestyle.

This book explores ways to achieve long-term retirement security, which I define as reliably generating income to support a retirement that could well last 25 years or more for you or your spouse. The generation of Americans now approaching retirement needs to begin focusing on what lies ahead. Boomers need to get smarter—quickly—about retirement.

Money

Over the past several decades, retirement *finance* has become synonymous with retirement *investing*. But it's worth remembering that individually controlled retirement-investment accounts haven't always been with us. The 401(k) and individual retirement account only arrived on the scene in the 1980s. At the time, about 38 percent of private-sector American workers still participated in traditional, defined benefit pensions that were funded and managed by employers and that provided regular lifetime checks after retirement. Over the years, the balance shifted dramatically toward defined contribution plans—mainly 401(k)s—in which employers commit to a specific contribution of funds but leave employees free to manage the invested funds and make their own contributions. By 2008, only 20 percent of workers had a defined benefit pension,⁶ although a larger percentage of large companies still offered them.

Defined contribution (DC) plans have never come close to replacing defined benefit pensions as a source of retirement security. Simply put, the DC pension system just isn't getting the job done, for the following reasons.

- Only 56 percent of American workers are active participants in a DC plan. One major reason is access; no law mandates that employers offer 401(k)s, and about 35 percent of workers don't have access to an employer-sponsored plan. Choice is another factor; 15 percent of workers who have access to a 401(k) decline to participate. More than 70 percent of low-income households reach retirement age without any employer-sponsored retirement coverage.⁷
- Employers are cutting back on matching contributions. In 2008, one-third of employers reduced or eliminated their matching contributions to retirement accounts, and another 29 percent planned to do so in 2009.⁸
- On average, employees contribute 7.5 percent of their salaries,⁹ about half the rate recommended by most financial planning experts.
- Exposure to stocks is too great as retirement approaches. Nearly one in four investors approaching retirement age (56-65) had more than 90 percent of their account balances in equities at the end of 2007.¹⁰ That's far too high, and older investors suffered huge losses when the market crashed in 2008.
- Investors cash out prematurely. About 45 percent of plan participants cash out their 401(k) balances when they change jobs rather than roll them over to new employers or IRAs.¹¹ That disrupts the long-term growth of their assets. Borrowing and hardship withdrawals also are allowed under the rules, and

people have been tapping into their balances somewhat more frequently during the economic crisis.

All these factors add up to woeful underperformance by the defined contribution system. In 2007—before the crash—the median amount saved by households headed by a person in the preretirement years (54-65) was \$50,500—just 7 percent of total household wealth.[12](#)

It's time to hit the reset button and pay attention to the broader array of financial tools that can help build retirement security.

Social Security

For most of us, Social Security will be the bedrock of retirement income. The program won't disappear into insolvency anytime soon, despite the politically motivated forecasts of doom we hear from time to time. But Americans do need to get smarter about maximizing their benefits. Most don't know when they become eligible for Social Security, how much it pays, or when it makes the most sense to file for benefits. Good planning and decision making can add hundreds of thousands of dollars to lifetime benefits for you and your spouse.

Pensions

Although they've been waning, defined benefit pensions remain a very big part of the American retirement-security system. Pension plans have generated a good deal of bad press in recent years because of a series of catastrophic, high-profile failures of big plans at companies such as United Airlines and Bethlehem Steel. But if you do have a

defined benefit pension, it's going to be a key underpinning of your retirement-security plan; and the best part is that it mostly flies on automatic pilot. Still, it's important to gauge the safety and stability of your employer's plan and the variety of benefits for which you may qualify.

Income Annuities

Americans without traditional pensions face the challenge of meeting retirement expenses with a combination of Social Security and savings. But one overlooked option is purchasing a do-it-yourself pension—otherwise known as an *income annuity*. Simply put, you make a single payment up front to an insurance company and begin receiving payments immediately; the price depends on factors such as your age at the time of purchase, gender, survivor benefits, and whether you want the payments to last for a fixed period of time or the rest of your life. Income annuities haven't gained widespread popularity as financial tools for retirement, mainly because people dislike losing control of their assets and worry that they won't "make back" the large sum of money that must be invested up front. However, used properly, an income annuity is an effective tool for covering basic living expenses and can provide effective insurance against the risk of outliving your money.

Recalibrating Portfolios

Are you one of those people who have been stuffing unopened 401(k) statements into a file drawer? Well done! While denial isn't much of an investment strategy, the key to coping with the market crash is taking a long-term view. The goal is to make sure your retirement nest egg lasts many years into the future. If you're younger than 50,

you've got time for the market to bounce back; the key here is to keep saving and to keep your portfolio balanced through use of tools such as target date funds, which automatically shift to a more conservative investment mix as retirement approaches. For older investors close to retirement—or already retired—the challenge is more difficult because it involves some belt tightening. The most effective strategies call for delaying your retirement and adjusting your rate of annual withdrawals.

Health Care

If you're over age 65, Medicare provides an important health-care safety net. But the economic crisis has forcibly retired millions of Americans in their fifties and sixties, leaving them without health insurance. Even for those on Medicare, health-care costs are eroding spending power and economic security; out-of-pocket expenses for people in retirement have jumped 50 percent since 2002.^{[13](#)} Health-care expense poses one of the most important risks to retirement security, so it's important to understand how to navigate the system and mitigate expense risk.

Taxes

Yes, you'll still owe taxes in retirement. Your income may well be lower, which will lighten your income tax burden, but several new factors come into play that affect your tax situation; these concern retirement savings, Social Security, and any continued income from continuing to work. You'll need to make a number of key tax-related decisions starting the day you retire.

Real Estate

Older Americans have a higher rate of home ownership than any other demographic group, and we're just beginning to come to terms with a housing market that has changed for the foreseeable future. In some parts of the country, prices are down more than 30 percent from their peak, [14](#) and the impact on boomers has been dramatic. One recent study suggested that 30 percent of Americans ages 45 to 54 are "underwater" on their mortgages—that is, they owe more than their homes are worth and would need to bring cash to a closing.[15](#) With today's high unemployment rates, sagging incomes, and rising foreclosure rates, we're not likely to see a strong rebound in housing anytime soon—and that's a challenge for anyone who needs to sell for retirement-related reasons. But planning for your housing needs in retirement brings into play a number of lifestyle considerations that have little to do with the current market. Is a move right for you, or can your current residence be adapted to serve your needs? What role can technology play in your retirement dwelling? Can you cut your expenses—dramatically—by paying off the mortgage before you retire?

Advice

Even before the economic crash, the boomer retirement knowledge gap was large, and the need for smart planning has only become more acute in hard times. Do-it-yourself planning certainly is an option, but a little help from a professional adviser can be well worth the time and money. The rationale for hiring a trustworthy adviser is simple: Money spent now could make a big difference in helping you achieve a secure, happy future retirement. But finding a

savvy adviser is a big challenge; almost anyone can hang out a shingle and start handing out advice. Planners may have any number of certifications or titles attached to their names, but none are required. So you'll need to understand the various types of advisory services that are available and how to interview and hire an adviser.

Work

Working in retirement: It sounds like a contradiction in terms. But most boomers weren't envisioning a retreat from work at retirement age even before the economy crashed. Boomers have been telling just about anyone who would listen that they want to reinvent their careers and forge a new style of aging centered around an active, engaged, and productive lifestyle. Those aspirations are consistent with the boomer generation's history of rebellious behavior (in their youth, at least). But rising longevity and the chance to live a greater number of healthy, productive years are additional factors making the "bonus round"¹⁶ an opportunity that is too enticing to pass up.

Here's the problem: Most boomers don't have a clue how to pull off this type of profound life transition. The personal upheaval associated with career transition can't be overstated, especially for those grappling with an unexpected, premature job loss. Sorting out the choices can be daunting, and many of us don't know how to get started. Many also feel additional pressure to "get it right" because this may well be the last career switch.

Work Longer, Not Forever

Working even a few years beyond what you've planned can pay a surprisingly large bonus in retirement security. Age 66 is the normal retirement age (NRA) for most people, as defined by Social Security, but about half of all Americans don't wait that long. You can avoid the early-filing benefit reductions imposed by Social Security by working until your NRA. At the same time, you can keep contributing to your retirement-savings plan, building additional balances that can be put to work in the market. And every additional year of working income is a year in which you're not supporting yourself by drawing down retirement balances. *The upshot is that staying on the job a few additional years can boost your income in retirement by one-third or more.*

Corporate America after Age 50

If you think you'll want to stay in the mainstream business world, working as a Wal-Mart greeter isn't your only option. But the employment outlook for older workers is mixed at best. Employers say they value older workers' experience, knowledge, and loyalty; and it's clear they are prized in some fields of work. But it's just as clear that employment security is eroding for older workers and that age discrimination is a major hurdle to staying employed. Success in the workplace depends on getting a realistic handle on corporate attitudes toward older workers and understanding where the best opportunities lie.

Job Hunting

Keeping or finding a job is challenging for anyone in tough economic times, but it's harder if you're over age 50—a reality that is colliding with older workers' intention to stick around. Experts in human resources—as well as successful

older job seekers—assert that it can be done. But in this economy, older workers will need to adopt new strategies for staying employed and selling themselves after age 50.

Starting a Business

Many boomers who want to keep working will wind up launching their own businesses. In some cases, that will mean launching full-blown companies requiring significant start-up capital, office space, employees, and all the accompanying headaches. Others will start “lifestyle businesses”—small ventures that can be launched with minimum capital and that balance work, play, and other pursuits. Lifestyle businesses can be started without much start-up capital—a big plus in a difficult economy. Still, these businesses may not generate much revenue immediately. That means lifestyle entrepreneurs need to maintain an adequate cash cushion to fund their living expenses while starting up.

Living

Hard times require belt-tightening, but the new retirement won't all be about money and work. With the country facing economic, environmental, educational, and other simultaneous crises, boomers are weighing the legacy that they will leave to the next generation and looking for ways to give back—a trend that is playing out in their careers and in the way they spend free time.

Encore Careers

Before the economy crashed, millions of midlife adults already were starting new careers in fields where they hoped to make a positive social contribution in areas such as teaching, health care, government, and the not-for-profit world. The tough economy hasn't really forced people to give up on the dream of second careers with meaning; if anything, their resolve seems to be growing. These "encore careers" can be found anywhere there's a clear social need that fits your passions and interests. But some fields have surfaced as clear early adopters of the encore career concept. Best of all, they're fields that are growing and hiring.

Volunteering and Public Service

The number of older Americans volunteering their time has never been higher. The impulse toward public service and civic engagement is partly a response to the terrorist attacks on September 11, 2001, and natural disasters such as Hurricane Katrina and the 2004 tsunami. [17](#) The recession also is a factor; out-of-work Americans have been volunteering at record levels as a way to keep busy and engaged while they hunt for paid positions. They're learning that volunteering offers a chance to learn new skills, feel valued, and leverage the skills learned in previous jobs. There are other benefits, as well; one study of volunteers found that volunteers had better mental and physical health, were more physically active, and had higher self-esteem as a result of their participation. [18](#) The trend encompasses work being done here at home and abroad. A wide range of not-for-profit, charitable organizations and businesses has sprung up that cater to the "voluntourism" market. Some older Americans have even made the commitment to join the Peace Corps.

Lifelong Learning

Heading back to the classroom has long been popular as an enrichment activity in retirement. Adult learning can transform lives and lead to new careers, but it's also becoming clear that there's a link between learning, health, and general well-being that stems from keeping the brain challenged. The options include self-directed programs at Lifelong Learning Institutes as well as traditional continuing education and educational travel.



The aim of this book is to offer a realistic assessment of how the emerging economy will affect the generation of Americans now approaching retirement, as well as help readers boost their retirement IQs by showcasing the best thinking I've been able to find in my reporting on retirement and aging. The result, I hope you'll agree, is a comprehensive guide to strategies for building retirement security in hard times.

Chapter Notes

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