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Delusions of Retirement Solvency

By NANCY MILLER

WALL STREET THRIVES ON making the uncertain seem nearly certain: Interest rates will go up -- or will not go up; technology is back-or is not back; value is in-or out. The latest certainty: Baby boomers in retirement will look completely different than any other generation -- or not.

Like so many of the certainties on Wall Street, only one is really certain: That which is widely held to be obvious and certain is unlikely to be so.

Over the past few years, financial firms of all stripes have been conducting surveys, issuing white papers, and reassessing their business and marketing plans in anticipation of receiving a historic flood of retirement assets. And experts have come to talk about baby-boomer retirement as if the conventional wisdom was based on some unassailable set of facts. But few boomers have retired: The oldest of the boomers have just turned 61; the youngest are 42.

So let's work through four key assumptions on the subject of boomer retirement, and consider what they really mean for boomers-and their financial advisers:

-- In retirement, boomers will cycle through work and leisure.

Not necessarily. About two years ago, Merrill Lynch published a study that posited a new model of retirement.

This survey of 2,348 Americans aged 40 to 58 revealed that this generation has no interest in being sidelined. Not now, not ever. Rather, retirement represents to them a time of transition, a time in life when they can cycle between work and leisure. This notion is changing how many financial advisers market to boomers. It also isn't new.

Adults aged 59 to 71, the so-called swing or silent generation, told insurer Metlife that they, too, planned on a work-leisure lifestyle. Yet only 12% of those in that survey who have already retired (about half the group) are actually working. Fifty-five% of those on the cusp of retirement say they plan to keep on working.

Another reality gap emerged in the Metlife study: Those surveyed consistently underestimate how long they are likely to live, compared to current actuarial numbers, and therefore overestimated how much money they could withdraw from their nest eggs.

If boomers expect to be able to work when they're older, that reduces the pressure to save now-no matter how long they live. If they are like the swing generation, then not only do boomers need to squirrel away more cash now, but they should take a harder look at their insurance needs -- from health to disability to long-term care.

-- Boomers are do-it-yourselfers who do not trust authority.

Typical boomers do not trust their preachers, their doctors or the president of the United States. They certainly don't trust financial advisers. According to a recent study by the management-consulting firm McKinsey, 86% of advisers believe they can meet boomer retirement needs; 65% of boomers do not believe that is true. And boomers do like to do some things themselves. Just look at the success of Home Depot, the world's largest home-improvement retailer, a giant promoting the DIY lifestyle. But look closer: What is one of the pillars of Home Depot's business? Installation services -- also known as DIFM -- do it for me.

Apparently, service has a place in the hearts and homes of baby boomers. The tension between DIY and DIFM is also being played out on Wall Street. The McKinsey study showed that currently boomers with more education and money are less likely to pay for full-service financial services.

Yet data also point to an undertow for boomers seeking help with their financial needs. The fastest-growing segment in financial advisory is for independent planners who, like the elves at Home Depot, are offering DIFM services to investors.

-- Baby boomers are in touch with their inner selves.

Actually, they seem no different from anyone else in their ability to delude themselves, especially when it comes to how good, or bad, they may be at saving for retirement.

Consider the fifth annual "Retirement Reality Check" from the insurer Allstate, a survey that asks "How good are you at saving?" Eighty-one% of boomers said they were good savers. The survey also shows that only 27% "don't like to wait to get the things they want, even if it's hard to afford them."

This is a monumental disconnect. The national-saving rate is now in negative territory, the worst in the industrialized world. As Matt Thornhill of the Boomer Project said recently, most boomers know little about saving or sacrifice, since they grew up in a time of national wealth, compared with the generation that experienced the Depression, or immigrants of any era.

Boomers may be willing to spend \$500 a night to learn how to develop the discipline to meditate or to improve their sex lives. But fiscal discipline appears to be elusive.

Another hint that boomers may be exaggerating their savings skills is their estimation in the Allstate study about how hard they say it is to save for retirement: Boomers deemed saving for retirement and quitting smoking as the most difficult things to do-harder than losing weight or working out.

How hard is it to stop smoking? Data show that only 20% to 40% of people who try to quit smoking with reliable programs succeed. Imagine if only 20% to 40% of the boomer population succeeded in saving for retirement.

Actually, you don't have to imagine it: Less than half of boomers have saved for retirement outside a workplace pension or savings plan.

-- Boomers are an irresistible force, changing forever the way our culture views work, retirement and life itself.

Boomers are a cultural steamroller. But the group that accounts for one in three living Americans is hardly monolithic. One of the things that makes baby boomers so interesting is their lack of uniformity. The predictability of the previous two generations is gone. Boomers are more likely to divorce, change jobs, move and reinvent themselves in ways previous generations in the last century didn't dare.

But boomers lack the social contract that bound other generations to work and government. They can't and shouldn't rely on employers or government to tend to their retirement needs. 401(k)s and IRAs are the shibboleths of the past 20 years; they are concepts signaling the shift from financial paternalism to self-reliance.

So if there is no typical 50-year-old the way there was way back when, and there will be minimal public support for retirement, what happens to all those nice age-based plug-in products Wall Street invented?

How should advisers be handling them?

Wall Street and regulators need to revisit issues of prudence and suitability. Insurance- firm Lincoln Financial found in a survey that most boomers don't start seriously saving until they hit their 50s.

Doesn't that depend everything we know about asset allocation for the 50-plus crowd?

A few fund groups think so, and have boosted equity allocations in their new lifecycle and target-date funds.

The recent surveys show that boomers view themselves as diligent savers who will work and play until they die.

Is the conventional wisdom correct?

We know that boomers don't like anyone looking over their shoulders at their finances -- possibly because they'd have to admit that they'd rather shop until they drop.

Boomers need a reality check from the financial advisers they spurn, in order to help them plan realistically for their old age.

Otherwise, at the rate that boomers are spending money, they had better pray for good health so they can work -- not to bolster their feelings of self worth in their senior years, but to pay for rent and food.

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