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Americans don't contribute enough to retirement funds, researcher finds

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As the oldest of the baby boomers begin to reach retirement age, a large percentage of Americans are thinking more and more about how much money they must save to be able to retire comfortably. Also, more and more employers are changing retirement benefits from defined-benefit plans, which guarantee some level of retirement income, to defined-contribution plans, which require employees to invest on their own for retirement. All of these changes, plus the recent economic recession, have created a difficult financial environment for future retirees. Now, University of Missouri researchers have found that more than 90 percent of future retirees are contributing only a minimal amount of their salaries to their retirement funds. Rui Yao, an associate professor of personal financial planning in the College of Human Environmental Sciences at MU, says this number is quite concerning.

"With the future of social security benefits in America very much up in the air, it is crucial that people save and invest for their inevitable future retirement," Yao said. "We studied how Americans invested for retirement before and after the recent economic recession, and our findings were alarming. Americans, especially those who are middle-aged, should be saving much more than they currently are for retirement, not only for their own financial security, but for the country's sake as well."

Each year, the Internal Revenue Service (IRS) sets the amount of income a person can set aside for retirement with tax benefits, depending on whether they are younger or older than 50. For her study, Yao examined how much income people invested in retirement funds as compared to the IRS limits. She looked at data from 2004, 2007, and 2010 to get a sense of how behaviors changed before and after the economic recession. In 2004, 43 percent of adults ages 21-70 contributed 20 percent or less of the IRS maximum amount to their retirement funds. In 2007, that number grew to nearly 51 percent and by 2010, more than 90 percent of working Americans were contributing less than 20 percent of the IRS maximum to their retirement funds. Yao also found that in 2010, only 3 percent of working Americans reached the IRS maximum contribution level. Yao says this behavior is very counterproductive.

"Common sense economic theory tells us we should buy when the market is low and sell when the market is high," Yao said. "But Americans are doing the opposite of that and actually contributing less when the market is low, such as during the recent recession. If Americans truly want to maximize their retirement funds, it is critical that they contribute more during a weak economy while they can ease up a little when the markets are higher. They should also take advantage of the IRS maximum levels of contribution as much as possible."

Yao says it is important for financial advisors and employers to educate their clients and employees on the importance of contributing higher amounts during poor economic times. Yao's study was published in the *Family and Consumer Sciences Research Journal*. She also won the AARP Public Policy Institute's Financial Services and the Older Consumer Award for her work on this study.

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