Americans are not financially prepared for old age, study finds

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Americans are living longer than past generations, and for many that means working longer, too. While for some this might be a choice, for many it is a financial necessity, according to a new report published Oct.

22 by the Stanford Center on Longevity.

Over the past century, Americans have added nearly 30 years to their lives. But about 50 percent of Americans are not financially prepared for these extra years, said Stanford psychologist Tamara Sims, who is the lead author of the report.

The report, "Seeing Our Way to Financial Security in the Age of Longevity," draws on original and existing datasets to predict financial outcomes at different life stages. Sims and her co-authors found that across generations, Americans are increasingly falling behind when it comes to attaining two prominent predictors of financial security later in life: homeownership and retirement savings.

"We, as an aging society, are moving in the wrong direction towards adequately preparing for such long lives," Sims said. "Multiple generations of Americans are facing the very real possibility of failing to achieve a lifetime of financial stability."

Many Americans can't retire at 65

Currently, Americans age 25-64 are not saving enough to retire comfortably, the researchers found.

Roughly half of American workers are participating in work-based retirement savings plans and on average are contributing 6 to 8 percent of their income. But according to the researchers' projections, they need to be saving more if they want to maintain their standard of living and retire fully from the workforce at age 65.

Americans planning to retire at 65 need to put 10 to 17 percent of their current income aside – even if they started saving as early as age 25, said the researchers in the report. For those who started saving at age 35, they need to put 15 to 20 percent of their income aside.

Millennials, people in their 20s and early 30s, are falling short of reaching their target retirement goals the most, but they are not alone in being ill-prepared for their future. Baby boomers also have inadequate retirement plans, the researchers said. About 30 percent of mid-boomers, people born between 1954 and 1959, had zero balances in their retirement accounts (including workplace plans and IRAs). In addition, about 70 percent of mid-boomers had an average debt of over $110,000 per family and 15 percent had debt exceeding half of their wealth.

To compensate for the shortfall of retirement savings, working longer may be the most realistic solution, the researchers said.

People can reduce their standard of living in retirement and make conscious investment choices with their retirement savings. Many, however, will face a financial crisis at some point during their retirement, the researchers said in the report.

Consequences of delaying milestones

Another strong predictor of financial security later in life is homeownership. This too is in decline and is now at a 50-year low.

Homeownership is especially down among millennials. Compared to those born around 1960, people born in the early 1980s are less likely to own a home by age 30, the researchers said.

"In older generations, marriage seems to spur people into homeownership," Sims said. "Nowadays, younger generations are looking to get married, have kids, pay off student loans and start saving for retirement – which could be a proxy for settling into a long-term career – all before they buy a home."

Delaying homeownership means that young people lose the advantage of home equity increasing over time.

"By not owning a home, younger Americans today may forgo the opportunity to grow their household wealth, and in conjunction with inadequate household savings from alternative sources, future financial security across their life course may be adversely affected," the researchers said in the report.

But as earlier research from the Stanford Center on Longevity found, postponing milestones – such as buying a house – does not necessarily mean they want to delay these important life events. Millennials said they wanted to achieve these goals at the same age as previous generations.

Young people today are faced with a myriad of factors that limit their financial options. For example, student debt significantly curbs how much net worth a person can accumulate – which for this cohort is less than $10,000, the researchers said. As a result, people can't afford the down payment required in most housing markets.

This puts young people in a financial double-bind, Sims said. Student loans bring the benefit of college degrees that potentially put people on track for a better career with financial security. But taking out these loans means restricting their ability to buy a home at a younger age.

Next steps

While the study suggests a grim financial picture for many Americans, Sims remains optimistic about the opportunities to reverse some of the predicted trends.

Individuals can be motivated to make better decisions for themselves, she said. But she also hopes that this report can be used to inform conversations, stimulate new financial products and encourage policies and practices that ensure financially security as Americans age.

"Most Americans don't like to think about growing old," Sims said. "But the reality is that as individuals and a country, we are aging, and this doesn't have to be seen as a crisis but rather as an opportunity. The opportunities will come only if we tackle some of the challenges such as those revealed in the project findings."

More information: Seeing Our Way to Financial Security in the Age of Increased Longevity: longevity.stanford.edu/sightli … rity-special-report/

Provided by Stanford University

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