

4 New Realities of Retirement

Here's how retirement will be different for the baby boomers.

Baby boomers could enjoy several decades of retirement, which they will need to find a way to pay for.

This year some 4 million baby boomers will retire. Some of us are forced to retire or can't wait to retire in our 50s. Others love their jobs and are able to hang on until they're 70. Some people have a pension, but many do not. But no matter what our prospects, we all have to face certain realities and plan our future lifestyles accordingly.

You will likely live longer than you think. You're 65. How much longer do you think you will live? We all know women live longer than men. But according to figures from Social Security, the average 65-year-old man will still live another 20 years. The average female will live a couple years more. And that's just an average. One out of every four 65-year-olds will live past age 90. So you will be retired for a long time, and over the next 20 or 30 years the world will change dramatically. In planning for retirement – whether considering your income, investments, home or lifestyle – you shouldn't just think about the next few years. Look out into the next decade and beyond to map out your future.

Social Security is not going broke. Alarmist headlines in the media sometimes scare us into thinking that Social Security is nearly broke, and that politicians are conspiring to dismantle our whole social network. It's true that Social Security is currently paying out more money than it's taking in. The so-called trust funds are being depleted, and at this rate they will be empty in 20 years. But think about the other side of that equation. Social Security is financially stable for two more decades. If nothing is done to improve the program, it might have to be scaled back. But it will not go broke, because payroll tax revenue will still be coming in. Meantime, all we have to do is make a few simple fixes, such as increasing the ceiling on the payroll tax, to shore up the system for good. Regardless, if you're a baby boomer, you should not be too worried about your future Social Security benefits. The changes are most likely to affect future retirees.

You will need more money than you think to support your current lifestyle. After you retire you are no longer earning a paycheck, no longer contributing to a 401(k) and no longer receiving credits toward a pension. You have your resources, and you have to make them last a long time – very likely until you're 90 years old. Meanwhile, the average retired worker receives \$1,341 per month in Social Security benefits, as of January 2016. That's not much to live on. But if you can wait until full retirement age (66 for most of us) to retire, your monthly benefit will be higher, up to a maximum of \$2,639 a month. If you wait until age 70 your benefit is higher still, up to \$3,576 a month. Meanwhile, a recent survey by Blackrock showed the average baby boomer had a retirement nest egg of around \$140,000. With current low interest rates, financial advisers suggest withdrawing no more than 4 percent annually. That produces \$5,600 a year, or \$467 a month. That's not much to supplement your income, so you need to store up as much as you can for the future.

Why would you want to keep your current lifestyle anyway? Some experts estimate it takes roughly 80 percent of your pre-retirement income to sustain your old lifestyle. But your kids are grown up now, and you no longer have to support them. You don't have to save part of your income for retirement, since you're already retired. You don't have a paycheck, so your tax bill will probably be less. You don't have to commute, and may need less insurance. You will in general face lower day-to-day expenses, including the fact that maybe by now you've paid off the mortgage. Come to think of it, you may not need the big family home at all anymore, and could downsize to smaller quarters in a less expensive area. The bottom line is that with a little creativity and flexibility, many retirees find they don't have to worry about supporting their old lifestyle. They can live on

half of their pre-retirement income. So the true reality of retirement is to recognize that your old lifestyle is a thing of the past, and to adapt to a new lifestyle to match your new stage in life.

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