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Strategies to bolster your retirement confidence

Personal Finance

BY DANIEL COHEN

Dare we use the term malaise? The outlook Americans had in 2012, and continue to have about their retirement plans, can use a little cheering up these days.

According to the 2012 comprehensive Retirement Confidence Survey by the Employee Benefit Research Institute, "only 14 percent of Americans feel very confident they will have enough money for a comfortable retirement and 56 percent haven't even attempted to calculate how much money they will need to retire." As you look for any signs of hope or optimism in the report, your takeaway will be meager at best.

The prevailing view of many Americans seems to be that conventional retirement planning won't pay off the way it used to. Or they may be procrastinating because of so many fiscal and monetary uncertainties. Bad news reporting has many people skittish, but I believe there continue to be many good investment opportunities as some key earnings performances are bearing out.

Time is always a significant factor when planning investments. Generally, the sooner you begin to implement your retirement plan, the more you will benefit from time and other factors. It is never too early to begin your planning in earnest. The 2012 Retirement Confidence Survey clearly indicates that people who plan earlier for their retirement are more confident in their ability to retire comfortably.

Unfortunately, the percentage of workers who reported that they and/or spouses had saved for retirement has been declining, and a sizable percentage of workers – 60 percent — have virtually no money in savings and investments.

Workers are adjusting their expectations about retirement and, as expected, a vast majority has increased their expected retirement age. However, many Americans find themselves retiring unexpectedly — earlier than planned, due to such factors as health issues or disabilities, employer downsizing or having to care for a family member. Only 8 percent of workers report retiring early for positive reasons. Seventy percent of workers expect to work in retirement for supplemental pay.

UBS Wealth Management Americas surveys U.S. investors on a quarterly basis to learn about their needs, goals and concerns. The investors surveyed have a professional adviser and at least $250,000 in investable assets.

Asked the question, "How worried are you about each of the following in terms of potential impact on your financial goals or objectives?" the top concern was the political environment in Washington. A close second was rising health care costs, followed by the size of the U.S. national debt.

In both surveys, the cost of health care and being able to afford the support needed in old age is a growing concern. The uncertainty of the future of Medicare adds to this concern.

Traditionally, the biggest emphasis in the financial services industry has been on helping investors plan for retirement – building a large enough nest egg to retire comfortably and ensuring a steady income stream that investors won't outlive.

While this remains highly important, the big unknown impacting older Americans has become health care and long-term care costs, and the reality that failure to anticipate expenses stemming from a major health problem could rapidly drain one's nest egg.

Today's investors recognize this fact, and it's reflected in both their objectives and their personal financial concerns.

"Staying healthy/fit" is investors' top objective – 73 percent list that as a top-three goal. "Maintaining quality of life" is chosen by 68 percent and "enjoying life" is chosen by 52 percent. In contrast, "making sure I can retire how and when I want" comes in a distant fourth, at 26 percent.

The start of 2013 has seen flows of money back into the equity markets for the first time in many years. This may be a good long-term trend and appropriate for many investors. Interest rates are still very low, and very few workers can earn the returns needed to reach a comfortable retirement by relying on fixed-rate investments available in the current market.

Most retirees also cannot rely on today's low rates to pay enough interest to fund their retirement needs. Income from dividends not only provides a higher income than the interest earned on 10-year government bonds, but historically has grown at or above the rate of inflation. Moreover, the income from dividends is taxed favorably when compared to taxes on bond interest. Rising costs in retirement create the need for a source of income that has the potential to increase.

There is no easy solution to the problems facing today's workers and their retirement plans. The first step is to sit with a financial planner to develop a long-term plan, including an estimate of how much money one will need saved by the time they retire so they can live comfortably. NHBR

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