Retirement Planning: Saving with Balance

One benefit of living in a free society is the incredible freedom each of us enjoys. With freedom, however, comes responsibility--the obligation we must plan for our own retirement. The government can and will help, but ultimately we must look after ourselves. Unfortunately, studies show the average American worker saves less than 5 percent of disposable income, which is less than the 10-15 percent financial advisers generally recommend.

With the average American expecting to spend 20 years in retirement, the looming question is: how will a retiree pay the bills? Paying bills requires having a reasonable estimate of future costs. Once again, the data are not encouraging. Over 50 percent of Americans do not know how much they must save. Apparently, many workers are not overly concerned because another 30 percent do not even participate in their 401k plans. When considering that many employers match employee contributions, non-participation means a worker is forgoing free money. The overall lack of planning is alarming!

Is it possible that a solution will somehow magically appear? Perhaps our children will take care of the problem. Yeah, right! How about entitlement programs like Social Security, Medicare, and Medicaid? The problem is these programs lack enough funding with no resolution in sight. Whatever way one looks at it, a reasonable person cannot escape the conclusion we have to plan for ourselves. Saving for the future is our only realistic solution.

Saving not only requires discipline, but it also requires a healthy dose of balance. A sense of balance is required to understand the tradeoff between living for today and living for tomorrow. Ms. Smith is in her early 30s. She is a model of discipline. She well understands the importance of contributing to her employer sponsored 401k and investing in a non-retirement brokerage account. She regularly makes contributions to both.

When confronted with a possible impulse purchase such as a new dress, Ms. Smith resists the urge. She is so conscience of saving that I, as her financial adviser, have to occasionally remind her to enjoy living in the present. Saving for the future is a good thing, but unlike Mae West's comment that too much of a good thing can be wonderful, too much of a good thing can actually be unhealthy. Enjoying certain creature comforts and even splurging now and then is part of life. While Ms. Smith may be an exceptional case, many people have a similar view, especially those who grew up in relatively poor surroundings.

A lack of balance can affect the relationship between a husband and wife. I have a friend who is a spend thrift. His attitude is to live for today because, as he says, nobody knows if they will be around tomorrow. This gentleman's wife is exactly the opposite. She is like Ms. Smith. The diametrically different views between my friend and his wife have been a constant source of tension in their marriage over the years. Even now as they approach retirement, the tension has not vanished and can show up in little situations such as going out to dinner. He often says, “I don’t want to squeeze every penny”. She is fond of saying, “Every penny can make a difference down the road”. This couple is still looking for a middle ground that serves both viewpoints.

Saving can be as simple or as difficult as one makes it. If someone saves a certain amount of each paycheck, the temptation to spend is always present once the check is in hand. Instead of writing a check for deposit into a savings account every month, a better way is to establish a bank automatic draft in order to not have to continually face a decision. An automatic draft is a one-time decision that removes the need to make later decisions. Yes, an automatic draft can always be stopped, but to do that requires taking action. It is much easier to take no action; to leave things as they are. Here, inertia works in the decision maker’s favor.

My 20 year-old daughter recently asked me if she could spend the money she contributed to her IRA before she retires. Retirement for her is like a hundred years away. The thought of having to wait that long before spending the money is rather discouraging. I asked her if she remembers being 5 years old. She said, yes. I asked her how long ago that seemed. She said it seemed like just yesterday. I think I made my point!

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