The Retirement Savings Crisis: Is It Real? - Transcript

Tom Mullooly: In episode 87, we're going to tackle if there is a retirement savings crisis. Hey everybody, and thanks for tuning in. This is the Mullooly Asset Management Show. I'm your host, Tom Mullooly, and this is episode number 87. Where were you in 1987? I don't remember. It was too long ago.

What we want to talk about today is whether there is a retirement savings crisis in the United States. It's a really popular topic. We've found a lot of articles in different investment journals discussing whether there's a retirement savings crisis. It's easy to talk about because if you're in the investment business, what do you want? You want people sending you more money, so we tell people, "You aren't saving enough. You need to save more. Send us more money to manage." People who work on commission who get a fee, they're going to tell you, "You need to be saving more money." That is true, but is there really a retirement savings crisis? Well, we're going to share some numbers with you.

The first bit of data that we want to share for you is from a great piece that our friend of the firm, Michael Batnick, put together on his blog. His blog is called The Irrelevant Investor and you should check it out at TheIrrelevantInvestor.com. He said based on information from FRED, that's the Federal Reserve Board of Saint Louis, they mentioned that the average ... Let me see if I get this right ... The median retirement account balance for US savers between the ages of 56 and 61, you ready for this? $25000. You can't really go too far on 25 grand, can you?

What Michael Batnick did was he actually figured out if you put that money in a 60/40 portfolio, meaning 60% in stocks and 40% in bonds, pretty normal allocation, how much would you need to put away each month to get to $25000? This much. $6 a month. If you started in 1980 and put just $6 a month into some kind of retirement account at work or an IRA, whatever, $6 a month over the last 36 years, 37 years, is going to build up to $25000. That is pathetic. It's terrible.

To the contrary now, on the flip side, United Income released a report about a year ago in May of 2017 and they found something pretty interesting. The average retired adult, this is data based on a University of Michigan report, the average retired adult if they pass away in their 60s, they've got $296000 in assets. If they pass away in their 70s, they've got $313000 in assets. If they pass away in their 80s, they've got $315000 on average in investible or some kind of wealth, maybe in real estate. If they pass away in their 90s, they've got on average $283000. What's happening is older people are choosing to spend less and so they're passing away with money in the bank or money in real estate, so there's still money out there, so is there truly a retirement savings crisis?

Great article in the Wall Street Journey. Tim, when was that? A couple weeks ago? It was in April of this year, Retirement Savings Crisis. It's funny because the United Income article and the Wall Street Journal article had the same headline. They defined a retirement savings crisis is when a large number of people are facing a substantial drop in income.

Is it a substantial number? I don't know. One of the people in the panel discussion in the article talked about in 1981, the federal reserve said there was 58% of GDP, 58% of GDP, had been put away in retirement accounts for retirees. Fast forward to 2016. 153% of GDP is now socked away in retirement accounts.

Yes, some people are definitely under-saving for retirement, but what their point was, if this wasn't a crisis in 1981, it's certainly not a crisis in 2016 or 2017. In fact, that article went on to explain that college educated couples spend 30% at age 85 than they did at age 65 and they went on further to explain that most retirees don't even spend their full income, whether it's a combination of social security, retirement income, savings, so yes, there's going to be horror stories.

Every day in our office, the phone rings and we hear stories about people who are retiring with three mortgages. They're retiring and they're still paying student loans for their kids. They're upside down on their homes. They've got hospital bills up the wazoo. These things do happen, but do they happen to everyone? We're not so sure.

The takeaways from today's episode, if you're under the age of 50, you should be putting money away for retirement. You're going to be retired a very long time, 30 years, 35 years. It's a long time without a regular stream of income. If you're between the ages of 50 and 60, you've got to be aggressive about stepping on the gas and putting money away for retirement in big chunks. Just hitting your max in a 401K plan is not going to do it. It's not going to provide enough money for you in retirement.

If you're over 60, it's really time to sit down with a financial planner and talk about plan B. What are your options? You have to think about working longer. You have to think about saving more. There's a lot of things that you really need to start considering. We appreciate you tuning in and watching this episode number 87. Thanks again. We'll see on episode 88.