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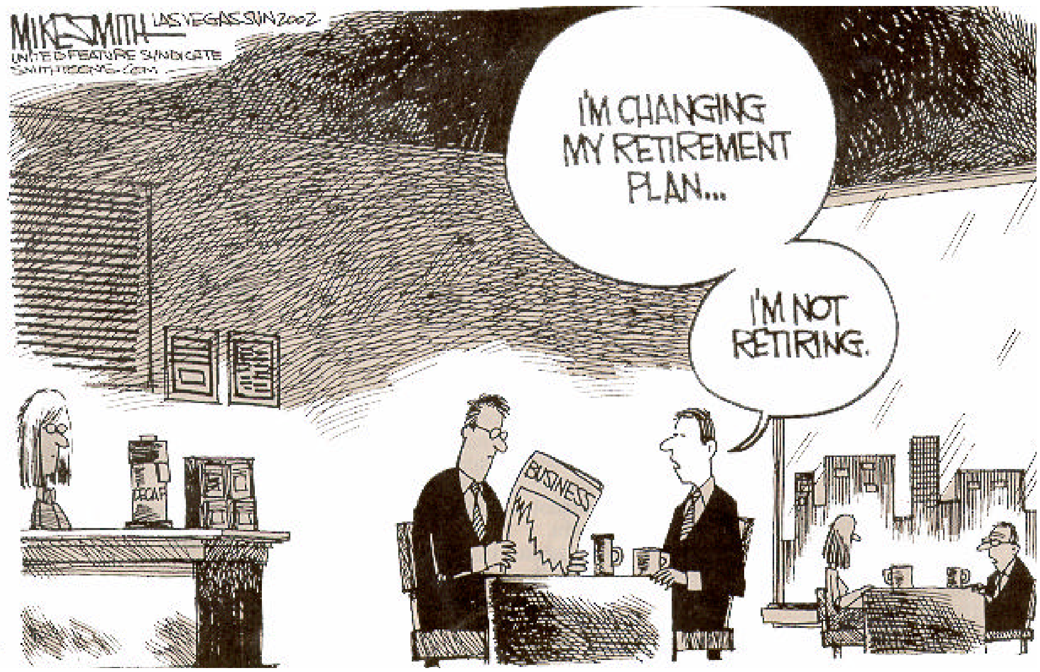

Retiring in a Depressed Economy

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Shifting Trends in Retirement

by Cheryl Asmus, Ph.D., Coordinator, Family and Youth Institute

The good news is that people are living longer than they used to.

The bad news is that people are living longer than they used to.

For the past 40 years, in general, retirements have been starting earlier and lasting longer. With the declining economy, many worry that they may not be able to afford so many years of reduced income, and they delay retirement.

To many workers considering retirement, the most important factors are the erosion of pensions, cost of health care and health insurance and other retirement benefits they had expected. Companies are cutting pensions and retiree medical coverage not only to save money, but to keep older people at work to address their labor shortages. Changes in Social Security benefit payments may also encourage later retirement.

The problem with a discussion of people retiring later pre-supposes that there is work available. If you assume that there is a fixed amount of work available,

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The Economic Benefits of Delayed Retirement

by Vickie L. Bajtelsmit, J.D. Ph.D., Department of Finance and Real Estate, Colorado State University

The recent decline in the stock market hit many prospective retirees where it really hurts—in their retirement dates.

Two years ago, Janet told her employer that she anticipated an early retirement in December 2002. This assessment, based on the accumulated value of her 401(k) and IRA investment accounts at the time, turned out to be overly optimistic. After several years of double-digit returns, Janet was hesitant to divest her profitable stock mutual funds, despite the advice of professionals to the contrary, and as a result, when the stock market declined, so did Janet's dreams of early retirement.

And she is not alone. The 2001 Retirement Confidence Survey, sponsored by the Employee Benefit Research Institute found that the percentage of today's workers who felt confident they will have enough money to live comfortably in retirement

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Invitation to dialogue

What issues and concerns would you like to see addressed?

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What Does Retirement Look Like For You?

by Judy McKenna, Ph.D., Colorado State University Cooperative Extension Family Economics

Most people over the age of 50 are rethinking retirement. The two-and-one-half-year decline in the stock market has changed the plans for many people—they plan to retire later rather than sooner. If you are wondering what you can do, it is time to take a good look at what you'll have and what you'll need in retirement.

Michael Stein, a financial planner in Boulder, Colorado, describes retirement in his book, *The Prosperous Retirement*, as three separate stages. Stage one is the healthy, active stage where our income requirements are as high as they will be during the rest of our retirement. "The active phase retirement budget tends to equal the pre-retirement budget, if the retiree can afford it."

Stage two, between ages 75 and 85, finds people slowing down, still active but more likely to concentrate on activities at home, with friends and in local communities. At this point, income needs are often 20 to 30 percent less than during the active stage.

Stage three is a time when poor health may require extraordinarily high medical expenses including long-term care. It is projected that individuals retiring at age 65 today have a greater than 50 percent chance of living until their late 80s or longer. Thus, stage three may require significant financial resources. Stein advises all of his clients to prepare early for this stage by purchasing some type of long-term care insurance.

To step back and reanalyze your retirement situation:

1. Estimate How Much You Need to Save.

Estimate what your monthly retirement income will be. It will include Social Security (the Social Security Administration has on-line publications and a form to receive an estimate of future social security benefits at www.ssa.gov), your monthly pension, spouse's monthly pension, and other sources (not including investments).

Project how much you'll have in savings when you retire by using a Web-based calculator such as http://moneycentral.msn.com/investor/calcs/n_savapp/main.asp

Estimate your retirement needs with web-based retirement planning calculators. The American Savings Education Council is a nonprofit organization offering a worksheet that estimates how much will be needed in savings at retirement. The worksheet is designed to help those who are at least 10 years away from retiring. http://www.asec.org/

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The Changing Faces of Our Editorial Team

Janet Benavente, Colorado State University Cooperative Extension specialist in Adams County, joins the *FYI Briefs* editorial advisory board with this issue. She brings a wealth of experience in family resource management and family relations as well as a strong interest in nontraditional families. A Cooperative Extension veteran, Ms. Benavente has worked for Cooperative Extension in Minnesota and Guam (the western most four-year institution in the U.S. land grant system), and until February of this year, was with the University of Missouri Outreach and Extension.

Having left Colorado in the mid-80s as part of a military family, Ms. Benavente has harbored a love for the state ever since. "I lived in the high desert as a child and the colors, fragrances and vistas implanted in me a love for this relaxing and empowering scenery at a young age," says Ms. Benavente.

Settling into her Adams County position, Ms. Benavente focused her programs on kinship caregiving issues and health care access and its effect on family functioning, among other projects. She received a bachelor's degree in vocational/home economics education from Oklahoma State University, and later returned to the University of Oklahoma to obtain a master's degree in human relations.

Ms. Benavente replaces Mary Ellen Fleming, who served for two years on the *FYI Briefs* editorial advisory board. The FYI staff extends a heartfelt thank-you to Ms. Fleming for her work on the editorial board.

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The AIG VALIC retirement planning calculator is simple to use and provides some guidance about how much someone needs to save to have adequate cash flow in retirement: http://www.aigvalic.com/valic2000/valicweb.nsf

You can also send me an email (mckenna@cahs.colostate.edu) and request a retirement planning form.

2. Spend less.

Andrew Tobias, author of nine books including *The Only Investment Guide You'll Ever Need* warns "a luxury once sampled becomes a necessity." Live below your means. Give yourself lifetime flexibility.

3. Save more.

The importance of a consistent commitment to savings often is overlooked as a critical retirement planning strategy. The more you save, the easier it will be to adjust to lower income in retirement. Every dollar you save reduces the amount of your income that you spend on your current lifestyle. If you save $50 a month now, you can get by on $50 less in retirement.

You may want to increase your savings to between 15 and 20 percent or more of your current income. If your children no longer require financial support, invest all that you've been spending on children in a retirement account. If your mortgage will be paid off soon, put all of that money into retirement funds.

4. Don't think about saving – just do it.

Jonathan Clements, columnist for the *Wall Street Journal* points out that people are prone to inaction. He suggests that individuals invest through a payroll deduction plan or sign up for an automatic investment plan, where the amount that you designate is deposited directly into a mutual fund.

Anytime you get an unexpected sum of money, put it in your retirement fund. Gifts, work bonuses and income tax refunds are sums of money you didn't expect so invest it in long-term financial needs rather than spending it.

5. Pay off your mortgage.

Retirement is much easier if your home is paid off. Refinance now with low interest rates. Get a 15-year mortgage and make extra payments to principal.

6. Investigate Roth IRAs.

Although a Roth IRA does not allow a salary reduction, there will be no taxes, ever, for savings that are held for five or more years. For 2002, if you are older than 50, you can contribute $3,500 to a Roth IRA for you and your spouse as long as you have earned income.

7. Check out the Financial Security in Later Life Initiative for Coloradans.

Colorado Cooperative Extension educators are gearing up to offer materials and programs that will equip Coloradans with the skills and confidence to practice effective and successful financial management strategies that insure financial security in later life. For more information about efforts in your county, send an email or call Jacque Miller (jmiller@coop.ext.colostate.edu, 970-491-2515) or Judy McKenna (mckenna@cahs.colostate.edu, 970-491-5772).

Shifting Trends in Retirement

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then a greater number of older people in the work force means fewer young people in the work force. This is a dangerous trend whose impacts are just now starting to be felt.

This *Briefs* issue takes a broad view of retirement in today's economy. Vickie L. Bajtelsmit, associate professor in CSU's Department of Finance and Real Estate, highlights the economic benefits of delayed retirement. Judy McKenna, CSU Cooperative Extension family economics specialist, provides us with specific steps to take regarding our own retirements. Elizabeth Garner, coordinator, County Information Services, CSU Cooperative Extension, supplies data on the impact of the current recession and the forecast for the next several years regarding retirement. Last, Katy Piotrowski, a career counselor and owner of JobWorks in Fort Collins, offers practical after-retirement advice for people considering retirement.

The Recession's Impact on Retirement and Forecasts for 2010

by Elizabeth Garner, Coordinator, County Information Services, Cooperative Extension, Colorado State University

It still may be too early to tell how the current recession affects retirement choices. There are many factors to consider including losses in the financial markets decreasing the value of 401(k)s and other retirement savings, loosening of the labor supply, savings and income levels of the baby boom generation, desire to continue working for social and mental stimulation purposes, perceptions of the economy, Social Security, and life spans, and changing demographics of the labor force. With many of these conflicting variables, it is difficult to sort out the impact of the current recession itself on retirement choices.

Current Labor Force Participation Rates (LFPR)

Monthly, the Bureau of Labor Statistics conducts the Current Population Survey to track changes and characteristics of the labor force. One potential way to identify the impact of the current recession on retirements is to see if the LFPR for 55 and older have changed over the last year or two.

LFPR, a measure of the proportion of a population group in the labor force (labor force /population), differ by age, sex and race. If more people from a population group stay in the labor force, then the participation rate will increase. The difficulty is that LFPR for both 55 to 64 year olds and 65+ have increased steadily since 1985. However, for the 55 to 64 year-old age group, the rates increased faster the last two years than in the past. Since the mid-80s, the average annual LFPR for 55 to 64 have increased by about .3 percent each year. The years 1999 and 2000 showed a slight decrease, but in 2001, they increased by 1.1 percent, and thus far in 2002 they have increased by another 1.2 percent. This shift could indicate that this age group has decided to delay retirement compared to previous years. For the 65+ age group this same trend does not hold true. The LFPR for this group increased steadily since the mid-80s with no significant changes over the last two years.

There are other factors that may also influence the LFPR for older Americans. A larger percent of women have been part of the work force since 1975. This larger group can now start to change participation rates for age groups 55 and older. Next, Social Security Amendments of 1983 phase full retirement age from 65 to 67 over the next 20 years starting in 2002. Both men and women are healthier and living longer. The life expectancy for someone turning 65 is 83, which means 18 years living off of retirement savings. Legislative changes and new types of retirement plans have provided alternatives to the traditional retirement at age 65. There is no longer a mandatory retirement age for most workers and federal law protects older workers against discrimination regardless of their age.

Labor Force Projections

Every decade, there are changes in the demographics and LFPR that impact the labor force projections. By far, the most influential factor over the time period 2000 to 2010 is the aging of the baby boom generation, those born 1946 to 1964 who currently are 38 to 56. In addition, women continue to impact the labor force. The participation rate of women in the labor force has increased since the mid-70s; however, the baby boom generation was the first notable generation to have a significant number of women enter the labor force. As this generation ages, LFPR will increase significantly.

Within the next decade, the first group of boomers will hit retirement age. The median age of the labor force will continue to rise even though the youth labor force (age 16 to 24) is expected to grow. The "baby bust" (those born 1965 to 1975) followed the baby boom. By 2010, this age group will be 35 to 44, which is considered the peak working years. Because there is this trough in the population and labor force expected from 2010 to 2020, any delayed or phased retirement of the baby boomers will help minimize expected labor shortages and contribute to fewer available jobs.

Income

One of the primary factors impacting retirement choices now or in the future is based on the amount saved for retirement and the potential increased earnings by delaying retirement. Several recent studies examined the economic well-being and retirement strategies of current retirees and of the baby boom generation.

From historical highs in early 2000, financial markets declined by over 30 percent. This decline severely impacted retirement savings for those who were currently looking to retire. According to the Quicken Fiscal Literacy Survey, a small survey of 500 families, 25 percent of those pushing back retirement were doing so for financial reasons and were planning to work five to seven additional years. The survey similarly found that the high-income older baby boomers (45 to 54) were most significantly impacted by the decline in financial markets. Almost half reported that the recession had caused them to delay retirement by three to four years with another 34 percent delaying by five to seven years.

The 2002 Retirement Confidence Survey http://www.asec.org/research/rcs/2002/ , a 12-year ongoing survey, sponsored in part by the American Savings

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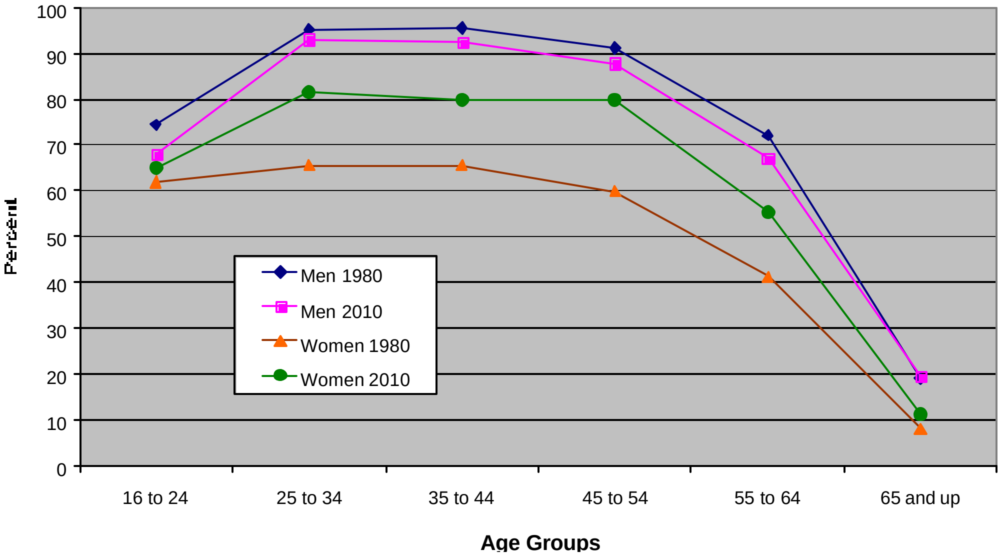

Labor Force Participation Rates for Men and Women, 1980 and 2010

Source: *Monthly Labor Review*, November 2001, Bureau of Labor Statistics

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Education Council, tracks trends in retirement confidence and retirement planning behavior. The 2002 report found that 67 percent of workers have saved for retirement. However, only 32 percent calculated how much money they will need to have saved by the time they retire. Up from 63 percent in 2001, 70 percent of those surveyed are very or somewhat confident of having enough money to live comfortably throughout their retirement years. Despite the recent economic changes, the returning confidence is in line with other recent surveys. Workers' perception of being on track with savings did not seem to be affected by recent events in the financial markets.

This same survey questioned respondents about planned retirement age. The average non-retired person plans on retiring at 65. Seventeen percent plan to retire before age 60, and 22 percent intend to retire between the ages of 60 and 64. Another 29 percent plan on retiring at 65 and 18 percent plan on retiring at 66 or older. Workers currently 20 to 39 envision retiring earlier than those 40 to 59. Most workers continue to be unaware of the phased increase in the Social Security normal retirement age from 65 to 67. Most (56 percent) expect to be eligible for full benefits at or prior to 65 while 17 percent do not know when they will be eligible to receive full retirement. Only 20 percent were able to give the correct age for full benefits and seven percent thought it was even older than 67.

For baby boomers, incomes prior and into retirement are expected to be up to 50 percent higher than those of their parents' generation. Married couples will do significantly better than single people, single men will fare better than single women and older boomers will be better off than younger boomers. The improved economic circumstances will be the result of real economic growth, more women in the labor force, smaller family size and broader pension coverage.

Lower-income boomers are not that much better off than their parents. Median real incomes were only 11 percent greater than that of the previous generation for the lowest 40 percent, whereas the median real incomes for the top 40 percent were 56 percent greater than the top 40 percent of the previous generation.

Choice

Since the mid-80s, there has been a trend to delay retirement. Additional data from Office of Personnel Management's (OPM) Central Personnel Data File indicated that federal retirements are falling short of earlier projections. OPM reported that 41,543 full-time permanent civil servants retired in 2001, a retirement rate of 2.8 percent. OPM had projected that 3.4 percent of federal employees would retire in 2001, or 50,771, so actual retirements were 18 percent short of projections. This data contradicts predictions that over 50 percent of the federal workforce, about 900,000 total employees would retire by 2005.

The lower rates suggest that federal employees are waiting longer and longer to retire. In 1988, 40 percent of federal employees retired as soon as they were eligible to do so, but by 1997, that figure dropped to 21 percent. Experts say they don't really know why people are delaying retirement. Many of those who are, and will be eligible for federal retirement within the next three years, were brought into the system from the mid-60s to the mid-70s and generally have an outstanding work ethic and possess a great deal of institutional knowledge about their organizations. It is actually good news for agencies that many of these individuals will stagger their retirements over the next 10 years rather than three to four years.

What Does This Mean For Employers?

Whether or not there is any current data that clearly indicates that people are delaying retirement due to the recession, the work force is clearly becoming older. Over the last two decades, the composition of the workforce has changed dramatically, primarily with a larger

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participation of women in the labor force and with the large group of baby boomers in the labor force. Companies have been making adjustments to allow for flextime, on site childcare, etc., as there are more women and workers from dual-career families in the labor force. The next impact on employers will be an aging workforce. The median age of the labor force is expected to increase from 36.6 in 1990 to 40.6 in 2010. This age cohort is large and comprises about 40 percent of the workforce. They also tend to have aging parents and many more of them have decided not to marry and/or have children. Employers need to be prepared for the changing demographics of the workforce and their needs in order to retain these highly experienced workers to remain competitive.

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After Retirement: What's Next?

by Katy Piotrowski, M.Ed., JobWorks, Fort Collins

By the year 2010, it's estimated that 10 million jobs in the United States will be open and waiting for employees. Millions of baby boomers will have retired, leaving holes in the workforce that need to be filled.

At the same time, a recent American Association of Retired Persons study showed that most of us don't plan to retire from work altogether. Instead, we hope to continue working on our own terms—creatively structuring our employment around our skills, interests and desired lifestyle.

Later-career planning can seem exciting and a little overwhelming, too. Exactly how can you pull together the parts that are most important to you?

Colleen Miller, a Colorado-based financial planner, has a front-row seat observing the career moves of her clients. As she guides them through investing strategies, she sees that those who plan ahead a few years are typically able to create satisfying and successful later-career situations. Debt is often more manageable in later years, allowing later-career workers the flexibility to temporarily reduce income in exchange for the opportunity to move into a new area.

For instance, one woman spent the bulk of her working life as an administrator for a large technology company—but spent much of her personal time working at a hobby she loves: interior decorating. So, when she was offered early retirement in her mid-50s, she leapt at the chance to make a formal move into the field. Now, she works flexible hours in a profession that she's passionate about and loves her new career.

Another worker, this one a company owner, sold his business and used some of the proceeds to launch a consulting practice. But even the best-laid plans can change. One consulting job led to a connection at a local university where he was asked to teach a course using his business knowledge. Now, instead of consulting, he's a part-time university professor and thoroughly enjoys his new role.

From Miller's perspective, the individuals who transition most successfully into later-year careers are those who build off of interests and hobbies they developed earlier in life. Using this approach, they've had the opportunity to confirm a strong interest in a new area and develop a marketable skill base in the process.

If you're not sure in what area to focus your later-career planning, Richard Bolles, author of *What Color is Your Parachute,* recommends beginning by determining the point where the world's greatest need and your greatest passions meet.

For one woman, this means making art therapy services available to at-risk children. To prepare herself for success down the line, she takes related courses at the

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decreased from 72 percent in 2000 to 63 percent in 2001. More than half of all workers indicated they expected to retire no earlier than age 65. The Bureau of Labor Statistics reports that 59 percent of those 60 to 64 were employed in 2000 along with 26 percent of those 65 and older. Projections for 2010 suggest that 62 percent of 60 to 64 year olds will be employed. Given the larger nominal size of this age group as the baby boom nears retirement, this component of the labor force will be increasing significantly.

Is delayed retirement of older workers a cause for concern? What impact will this have on the job prospects for both older and younger workers?

An increase in retirement age will likely benefit the American work force in both the short and long run for the following reasons:

1. *Delayed retirement will reduce the length of retirement, increase retirement savings, and improve the solvency of the Social Security system.*
   On average, according to the Retirement Confidence Survey, today's workers expect to be retired for 20 years or more. Retiring later in life thus has two beneficial impacts: it lengthens the investment period and reduces the period that the investment must support retirement needs. The economy may also benefit from the employed older workers' higher levels of consumer spending during their pre-retirement period. Social Security receives a boost as well. When a worker retires, not only is there an additional claim on benefits, but there is also a reduction in the payroll taxes collected by the system. Thus, additional years of work may help to shore up a system that, despite its financial uncertainty at present, is the sole source of income for more than two-thirds of the retired population.
2. *Current population trends imply future labor shortages, which could be alleviated by continued work-force participation of older workers.*
   As a result of better overall health and longevity, combined with the baby-boom population shift, the average age of the population is gradually increasing. It is projected that if the current trend continues, within a few decades, more than one-third of the U.S. population will be 65 or over (as compared to 13 percent today). While the change in composition of the work force has been a particular concern for Social Security solvency, with fewer than four workers now left to support every retiree under that system (compared to 17 when the program began in the 1930s), there also is growing concern that an aging population will eventually result in an economy with too few workers to provide services for the retirees and productivity to the economy. While it is unlikely that these extra years of work will alleviate the labor shortages that are already being felt in the low skilled service sector (despite high profile advertising aimed at getting senior citizens to work at fast food restaurants), the skilled economy will undoubtedly benefit.
3. *Early retirement has been associated with industries and sectors that have provided pension and retirement plans, leading to concerns about shortages of skilled labor.*
   Termed the "Brain Drain" by *Business Week* in an article last year, the early retirement phenomenon in the 1980s and 1990s generated some concern about future shortages of skilled workers, trainers and mentors. Since early retirement has been a phenomenon primarily among men in skilled labor jobs, expected increases in younger population due to immigration from less advantaged countries with less skilled training is not likely to solve this problem. The relative advantage of retaining older, more experienced workers is thus a balance between the advantages of their experience and the potential obsolescence of their skills, particularly in the technology sector.

Although it is difficult to forecast the changes in projected retirement precisely, the billions of dollars in lost market value over the last two years have undoubtedly changed retirement expectations for millions of Americans and particularly for those nearest to retirement. From the perspective of the individual, having to work for a few additional years may be disappointing. But from the perspective of society and the economy as a whole, the retention of knowledge within organizations and the additional years of productivity will help fuel economic growth, improve solvency of Social Security and reduce reliance on public programs. Furthermore, given the general shifts in the population that imply future labor shortages, these older workers are unlikely to displace younger workers. Instead of being a problem, delayed retirement is more likely a solution.

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local college, and networks with people in her community to help make her dream come true.

This seems to be a more successful approach than the, "I'll figure it out when I get there" tactic. Lyn Anderson, a coordinator with Experience Plus–an agency assisting older workers in Fort Collins–sees most of her clients struggle, rather than succeed, in locating positions. By not planning ahead, her clients are often forced to accept jobs that don't match their skills, interests or lifestyle preferences.

So, if you plan to keep working beyond typical retirement age, take steps now to develop a later-career strategy that will increase your chances for success. Talk with people who work creatively in their retirement to gather additional information and ideas. Experiment now with different specialties by taking courses or completing volunteer or practice assignments. And then, instead of fretting over your later career plan, you can look forward to many more years of creative contribution.

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