# Generation X & Retirement

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## *Retirement Readiness Tips for Gen-Xers*

Generation Xers, those born between 1965 and 1981, are sandwiched between the two largest generations in the present day workforce, Baby Boomers and their Millennial children. Many in Generation X are at the height of their career thus far. They are also juggling raising a family, caring for aging parents, and paying down debt such as student loans and mortgages. Saving for retirement may be a top financial concern; however, turning this priority into action is easier said than done.

### The Hard Truth

When it comes to retirement planning, industry news and advice tends to surround the Baby Boomer and Millennial demographics, however, studies show that Gen X as a whole is not well-prepared for their golden years. They need guidance just as much as these larger groups. Unlike generations before them, Gen-Xers most likely do not have a pension to fund their retirement. With the future of Social Security rather bleak, Xers must fund the majority of their retirement. According to the Insured Retirement Institute's Third Biennial Study on the Retirement Readiness of Generation X[1], roughly half of Gen-Xers would agree that saving an adequate amount for retirement is their top financial concern. However, only 8% have saved $250,000 or more. [2] A similar study from Transamerica[3] shows that roughly 77% of Gen X workers are saving for retirement. Among these savers, the average deferral rate is only 7%. Unfortunately, 30% of Gen-Xers participating in a retirement plan have taken a loan or hardship withdrawal.[4] These are scary statistics, but they are real. The time to act is now.

### The Silver Lining

Luckily for Generation X, there is still time to make changes to spending and saving habits. The sooner they start, the longer that money has to compound and grow into a viable retirement account. Cutting unnecessary current expenses and determining what amount is needed for retirement is a good place to start. When evaluating expenses in retirement, it is vital to understand which expenses will likely change. As a good rule of thumb, healthcare costs should always be expected to increase in retirement. Other costs, such as taxes and housing, generally decrease. It is important to note, however, that each person's situation and idea of retirement is different. There is not a "one-size-fits-all" solution for the amount needed in retirement. Vanguard offers an interactive Retirement Expenses Worksheet designed to help pre-retirees assess the monthly expenses they will have in retirement. This is a great starting point for Gen-Xers to see

[1] Conducted by Woelfel Research, Inc. and commissioned by the IRI. Surveyed 805 Americans in Generation X. Data was collected between December 28 and December 31, 2015.
[2] Don't You (Forget About Means) - Third Biennial Study on the Retirement Readiness of Generation X. Insured Retirement Institute. March 2016.
[3] Conducted by Harris Poll for Transamerica Center for Retirement Studies. The sample included 4,161 U.S. workers, age 18 or older, working for a for-profit company of 10+ people. This includes 1,232 Generation X workers. The survey was conducted between April 11 and May 12, 2016.
[4] Perspectives on Retirement: Baby Boomers, Generation X, and Millennials. 17th Annual Transamerica Retirement Survey of Workers. Transamerica Center for Retirement Studies. August 2016.

the amount of money they will need each month and construct a plan to build that wealth in their time horizon.

For Gen-Xers who have not started saving for retirement, there is no time like the present. Saving early and regularly will allow the money to compound and grow overtime, often tax-deferred. For those saving for retirement through an employer-sponsored retirement plan with an employer match, it is crucial to maximize the match. Generally, employer match percentages are rather low, often between 3% and 6%, so deferring above the matching rate is ideal. Many Plans allow Participants to change their deferral rate as often as each pay period. In this case, there is no repercussion to testing out a higher deferral rate because it can easily be changed. Another rule of thumb that will help Gen-Xers is to increase deferral rates with raises which allows them to save more money for the future without feeling that they are making a huge financial sacrifice today.

When unplanned expenses arise in the present, it may seem logical to divert savings for the future to cover these current costs. However, taking a loan or a hardship withdrawal from retirement savings can drastically diminish retirement savings overall because that money is removed from the account and is no longer earning interest. Loans and distributions should only be used when all other resources have been exhausted. Temporarily lowering their deferral rate or ceasing contributions in the short term could serve as better solutions when unforeseen expenses pop up.

## Overcoming their Fears

Gen-Xers may be wary of investing and the associated risks after experiencing the market volatility of the Dot-Com bubble, housing market crash, and resulting Great Recession. It is important to understand that all investments come with some level of risk and reward. There is no guarantee that the money invested will continuously grow, never experiencing a downturn. *However*, building a properly diversified portfolio will mitigate a portion of the investment risk while still allowing the portfolio to garner returns. It is important for all investors to determine their personal risk tolerance and compare that with the risk/reward scenario that will help them to achieve their retirement goals. Also, apart from target date funds, saving for retirement is not a one and done, set it and forget it event. Retirement fund assets must be rebalanced over time to lower the amount of risk the portfolio is subject to as retirement nears. For example, Gen-Xers at age 36 will likely have a higher stock to bond ratio than those at age 52. This is because investors at age 36 have a longer time horizon to garner growth and recover from losses. Investors at age 52 are much closer to retirement. While they still want to garner growth, they may hold a lower stock to bond ratio than younger investors in order to mitigate the risk of large losses.

## Conclusion

The grim truth is that many Gen-Xers are not well-prepared for retirement. However, there are steps that they can take to prepare for their future. It is never too late to start saving for retirement.

*The time is now for Gen X to ensure a bright retirement future ahead.*