

WHY MOST PEOPLE NEED TO WORK PAST THE AGE OF 65

By: Terri Williams - December 22, 2015

On average, Americans can expect to live 78.8 years, which is an all-time high, according to the Centers for Disease Control and Prevention. For women, the life expectancy is 81.2 years compared to 76.4 years for men.

And this is great news – except for the fact that many seniors may run out of money before they run out of time.

“Retirement is the time when a person lives off past earnings saved in a retirement account,” according to Michael Tove, president and founder of AIN Services in Cary, North Carolina. Tove tells Investopedia that the longer a person lives, the more money they will need in that accumulated account to provide the same monthly dollars of retirement income. “It’s simple math: to generate \$1,000 a month for ten years requires a retirement account of \$120,000; 20 years requires \$240,000,” explains Tove.

However, he says that inflation also affects future income. “From the example above, assuming the 30-year historical inflation rate of 2.62%, \$1,000 today would need to be \$1,295 in 10 years and \$1,676 in 20 years,” says Tove. So retirees are not only living longer than their predecessors, but they also need more money to meet their needs.

But this is only one reason why most workers will need to work past the age of 65. There are at least five more factors pushing the retirement age higher.

Changing Retirement Plans

The country’s employment and retirement structure have undergone significant changes. “In the 1970s, nearly two-thirds of workers received a pension from their employers — what was called a defined benefit plan in which workers received a percentage of their salaries when they retired,” says Lisa Kaess, a New York City-based economist and the founder of Feminomics, a boutique consulting firm for women.

However, Kaess tells Investopedia that presently, less than one-quarter of workers have such plans. “And most of those employers who still offer retirement benefits today pay a defined contribution — a specific percentage of an employee’s salary into a retirement account that workers can manage themselves.” And Kaess notes that there are fewer firms offering any type of retirement benefits.

Social Security

With little to no retirement income, more seniors will need to rely on Social Security Income (SSI). Whitney Lee, associate private CFO at oXYgen Financial, Inc. in Alpharetta, Georgia, tells Investopedia, “Some workers were counting on Social Security at 65, but now the full retirement age for Social Security for anyone born in 1960 or later is 67.”

And as a result, workers need to work longer to receive the maximum benefits. Granted, they can retire early, but Margie Shard, CFP, CEO and wealth advisor at Shard Financial Services, Inc. in Fenton, Mich., says, “Drawing SSI before your full retirement age (FRA) will cause you to incur a penalty which reduces your benefit for the rest of your life.” And Shard tells Investopedia that some workers need to continue working even past the FRA. “Some individuals need to let their SSI grow until age 70 because the FRA amount isn’t enough to sustain them over their expected retirement life.”

Underperforming Retirement Accounts

Many seniors approaching retirement may need to keep working because they depended on the income from their Individual Retirement Account (IRA). “Starting in 2000 with the dot-com bubble crash and the ensuing extreme market volatility, investment portfolios have substantially underperformed 20th Century expectations,” says Tove. Less

money in these retirement accounts means that senior workers won’t have as much money as they thought.

Too Much Debt/Not Enough Money Saved

Past financial purchases, such as mortgages and cars may also cause many seniors to continue working. Shard says they have too much debt and can’t maintain that standard of living if they retire. “For example, some parents may have paid for their children’s college either with savings and now don’t have enough to retire, or they took out substantial amounts of debt for their children and have to pay it back,” says Shard.

Also, some people lack the financial literacy to know how much money they’ll need. “It’s important to sit down and think about the type of lifestyle you would like to have in retirement, how much that will cost you, and don’t forget to take inflation into account,” advises Lee.

And Terry Heys, financial advisor and CEO of Lynwood, Washington-based financial consulting firm Sound Financial NW, tells Investopedia that debts should always be paid off, or at least paid down, before retirement. “You never know what other expenses you might incur, such as healthcare or personal emergencies, and the last thing you want to do is place even more strain on a fixed budget,” says Heys.

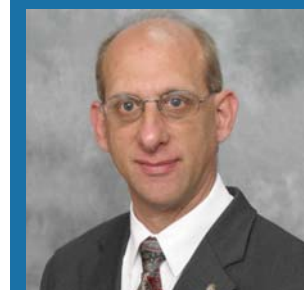
Health Insurance Costs

Heys is right about health care expenses, and that’s another reason most workers will need to work past the age of 65. And Lee explains, “They simply can’t afford to leave the benefits behind that they could be receiving at work, and it has become too costly for many employers to extend health coverage to their retirees.” Even among healthy seniors, Lee says there is a concern that in a few years, their medical expenses may be more than they can afford while also trying to cover living expenses for the rest of their lives.

Some of these expenses may include expensive prescriptions, says Shard. “Sometimes, these prescriptions are either not covered by their health insurance, or they are covered by insurance but those co-pays can add up.” Shard also says that some individuals may need treatments that are not covered by their health insurance.

The Bottom Line

Almost half of working households don’t have any type of retirement, and among workers between the ages of 55 and 64 who do, the average balance is \$100,000, according to Kaess. “Combined with the average Social Security monthly disbursement of \$1,300 per person, retirees with no pension would need to live on less than \$1,650 per month or roughly \$3,000 a month for couples,” Kaess says. Also, the cost of health insurance and medical care, along with too much debt, means that most workers will need to work past the age of 65.



Michael Tove Ph.D., CEP, RFC, president and founder of AIN Services, is an insurance licensed Certified Estate Planner and Registered Financial Consultant. Dr. Tove’s philosophy is that every client, regardless of net worth, deserves the best planning possible.

For more information, call 800-363-2296 or visit www.ain-services.com.