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Podcast for Employees

*Planning for Retirement*

**[09:17]**

**Host:** How far off is retirement for you? Five years away? Ten or more years away? Whether you've thought about retirement a lot, or almost not at all, the more you plan, the better off you'll be. Hi, I'm your host, Marianne Jacobbi. Welcome to our monthly podcast. We're here with Dr. Alicia Munnell, Director of the Center for Retirement Research at Boston College. She's an economist, the author of numerous books and research studies, a leading authority on the financial aspects of retirement, and she's on the line with us from Boston to talk about planning for and thinking about retirement. Professor Munnell, thanks for being here.

**Alicia Munnell:** Thank you for having me.

**Host:** You've written that working longer is the key to a more secure retirement for most Americans. And that up until the end of the 19th century, people generally worked as long as they could. What is the average age today for retirement for women and men?

**Alicia Munnell:** The average age for men is 64 and the average age for women is 62. This is actually an increase in the ages for both groups. Men's retirement age had been declining for a very long time, until about the 1980s. This reflected increasing sources of support in retirement. First it was, ah, Civil War pensions and then Social Security, then

employer sponsored pension plans, then Medicare, which helps with medical expenses, and then expansion of Social Security benefits. So the resources for retirement allow people to withdraw from the labor force earlier and earlier. That pattern began to reverse itself around the mid 1980s for a whole host of reasons. Most importantly probably a change in the nature of our pensions from old fashion defined benefit plans to 401(k) plans. But people were healthier and living longer. Jobs were less physically demanding. There's been a decline in retiree health insurance and health care costs are very expensive, so people have an incentive to work till 65 when they qualify for Medicare. And some of the incentives in Social Security itself has been changing.

**Host:** Even a generation ago, retirement was something many people looked forward to. Today, that's not true. For many Baby Boomers, isn't retirement a source of anxiety?

**Alicia Munnell:** I think for the early Boomers and especially for the later Boomers, it is enormous source of anxiety. And I think the main reason for the shift between looking forward to this pleasurable secure period and the anxiety is the change in the nature of our retirement system. Before, people could count on Social Security, plus employer sponsored definite benefit pension which came to you every month for the rest of your life. Now people have increased reliance on 401(k) plans where they have a pile of money and the pile of money is quite small. And they're going to have to use that to supplement Social Security throughout long retirement periods, and so there's lots to worry about.

**Host:** How can planning ahead help relieve some of that anxiety?

**Alicia Munnell:** We've done a lot of studies that show that people who start saving early and retiring later can save at a much lower rate than if you postpone your saving for retirement until your 30s or your 40s. And so starting early can make a big difference. The other thing is that even if you haven't started to save at the appropriate time, if you can figure out in your own mind in your 50s that working an extra three to four years will be very beneficial in terms of the size of your Social Security benefit, allow your nest egg to grow, and so you know you're going to stay either with your employer or find a position that will be comfortable for a long period of time. But planning on working longer is a key to having a secure retirement. And I think a lot of that responsibility rests with the individual. The individual has to persuade sort of skeptical employers that older workers are beneficial. So you can't be looking at sort of sites in Florida on your computer, you need to be going to your boss and saying, "Listen, I'm going to be here for another ten years, I want to be considered for promotion. I want to go to the outings. I want to be involved in firm decisions and I'm a valuable player and want to be treated that way."

**Host:** So let's get practical for a moment and talk about Social Security benefits. What do I need to be thinking about in terms of planning for that and for when to begin taking those benefits?

**Alicia Munnell:** In my view, when you decide to claim your Social Security benefits is one of the most important decisions you can make about retirement. People don't realize it, but if you can wait till 70 your benefits will be 75 percent larger than they are at 62. Now not everybody can wait till 70, but your monthly benefit goes up by 8 percent a year for each year that you can defer taking benefits. So it just has an enormous impact on how secure you're going to be in retirement. And also since your spouse's benefit or widow's benefit is based on the amount that you actually claim, the longer that you defer claiming, the more secure that the surviving spouse is going to be. So Social Security claiming decision is really the most important decision facing most Americans when thinking about retirement.

**Host:** You're an expert on this topic, and you've been studying it for a long time. When did you begin thinking about what your own retirement years might look like?

**Alicia Munnell:** I've never really considered my own retirement years, what I'm actually going to do, but I did start worrying about the houses we owned and things like that in about 15 years ago. And fortunately we downsized and sort of got expenses under control. So in that sense I was forward-thinking. In terms of what I'm actually going to do when I retire, I started playing bridge, duplicate bridge. But that's the first time only in the last few years that I thought that there may actually be a time when I didn't work.

**Host:** That's funny. But being serious for a moment, what is your biggest concern about retirement in general for most people?

**Alicia Munnell:** My concern is that we have an inadequate retirement system, that Social Security and the meager balances that people have in these 401(k) plans are just not going to be able to support people in the style to which they've been accustomed while they were working. So people are going to see a big decline in their standard of living when they stop working. We actually have something called the "National Retirement Risk Index," which measures the percent of households who are not going to be able to maintain their standard of living once they stop working; and that number in the wake of the financial crisis and the recession was around 50 percent, which means that 50 percent of households are likely to see a decline. So it is a really worrisome phenomenon, and I think that to see a whole population of older people who are scrimping and just trying to get by as best that they can is going to be very distressing. And for people in the lower end of the income distribution, it will be really critical. They will not be able to get the medicines they need and the, you know, healthy foods they need and all that kind of stuff. So I personally foresee a retirement income crisis coming with the meager balances that I see in these 401(k) plans.

**Host:** To avoid the income crisis you describe, what positive steps can people take now?

**Alicia Munnell:** The most positive thing that I think people can do is to plan to work longer and people often respond to that, "I don't want to be working in my 90s, but our calculations show you don't have to work into your 90s, we're talking about extending your work life through as much as the 60s as possible. And if you can do that, you'll get a

much higher Social Security benefit. Your 401(k) plan will have a chance to grow when it's sort of at its maximum amount and you've also shortened the period over which you have to support yourself in retirement. So working as long as you can is really the way to square the retirement income circle.

**Host:** Professor Munnell, you've given us lots to think about and really helpful advice.

Thanks for talking with us today.

**Alicia Munnell:** Oh, my pleasure.

**Host:** You'll find lots more on this topic at the Center for Retirement Research at Boston College. Go to [crr.bc.edu](http://crr.bc.edu). Also be sure to visit our website for articles, booklets, podcasts, and recordings on work and midlife issues. Thanks for listening.

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