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Rethinking retirement: Myths that could derail your future plans

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Experience is often a good teacher. However, when approaching retirement, watching the path of others before you may not provide adequate guidance. Retirement has changed greatly in recent decades and yours may be different from what your parents and grandparents experienced. As a result, your preparation and expectations may need to change to be ready for a 21st century retirement.

A few key changes to retirement include the fact that we have greater longevity, fewer safety nets and possibly greater responsibilities. This may be countered with greater personal freedom and lifestyle opportunities. To prepare for what retirement could be for you, it is important to understand a few retirement myths and what retirement may *not* be.

Myth 1: My employer will provide for my retirement

Prior generations benefited from having employer-based plans that guaranteed lifetime income and benefits. Although several employers, such as units of government and large corporations, still have defined benefit pension plans that guarantee fixed monthly payments, most employers do not.

Today, fewer than 20% of companies have traditional pension plans. Beginning in the late 1970s,1 many of such plans were slowly phased out and replaced with retirement savings accounts such as 401(k), 403(b) and defined contribution pension plans that shift the financial risk of retirement to retirees. An understanding of what type of plans your employer offers is recommended to ensure your financial expectations are appropriate, and plan how to supplement your income if necessary.

Myth 2: Social Security will cover my needs

Social Security has historically been a consistent source of income for retirees. Its payments also adjust for inflation, which is helpful in keeping up with the cost of living. Unfortunately, many living expenses such as housing and energy have had inflation at a rate that exceeds the overall average.

Social Security payments once covered the majority of household expenses. In recent times it is only enough to cover 68% or less of many household expenses.2 Social Security is now supplemental income and must be complemented with income from other sources. Careful planning should be done to pair it with other reliable types of income to maintain your retirement lifestyle.

Myth 3: My inheritance will provide for my retirement

It is estimated that the Silent and Baby Boomer generations will transfer approximately $30 trillion to $68 trillion upon their death. The large amount of potential inherited wealth has made many family members more optimistic about inheriting wealth. Although a record level of wealth has been created, family members of those with financial means should not assume they will be the beneficiaries.

Waiting to inherit assets is not a good strategy, especially when the grantor can change beneficiaries. The funds you are anticipating can easily go to a different family member, charity or new spouse without your knowledge, consideration or consent. If you are fortunate enough to be considered for an inheritance, it is possible that you still may fall short of meeting your retirement expectations.

According to data from the Federal Reserve, the average inheritance in the US is approximately $46,200. Although one could argue any number greater than $0 is better than nothing, $46,200 will make a marginal difference in the average retiree's lifestyle. Six figure or greater dollar amount inheritances appear to be limited to the wealthiest 1% of families.

Myth 4: Medicare and my employer will provide for my health care

According to the Society for Human Resource Management's (SHRM’s) 2024 Employee Benefits Survey Report, only 24% of large companies provide retiree health coverage for their employees.3

You can wait until you qualify for Medicare benefits at age 65. However, Medicare does not cover all health-related expenses such as long-term care and hospitalization in certain situations. Gaining an understanding of what potential gaps in coverage you may encounter is important in building a solid financial plan for retirement.

Myth 5: My spouse will provide for my retirement

Research shows that many times, couples are on different pages when it comes to saving for retirement. Although your spouse might be a good earner, don't assume a plan is in place to provide for you in retirement. In one study conducted by The Harris Poll, a research organization, of those individuals who reported their partner is saving for retirement, roughly one in five said they don't know how much their partner contributes to long-term retirement accounts or even have a general sense of the total value of their partner's retirement account. 4

Other unexpected disruptors of your anticipated lifestyle might include divorce, a beneficiary change, or a reduction in benefits if your spouse passes before you. Working with a trusted financial advisor to develop a common strategy is often best for couples to achieve retirement success.

Myth 6: My lifespan is 75 to 85 years

The fastest-growing population age group is 85+. Because of this expanded lifespan, living to age 100 may become relatively common. Currently, individuals who reach age 60 have a 50% chance of turning 90.5

Myth 7: Safe investments such as CDs and T-Bills are all you need

As retirees in the 21st century experience greater longevity than those before them, it's possible for them to have a lifespan that reaches age 90 or higher. A retirement portfolio built on treasury bonds and CDs made sense for earlier generations when life expectancies were shorter and inflation was tame, but that may not be the situation facing future retirees.

A no-risk portfolio may lead to the loss of purchasing power as you grow older and negatively impact your lifestyle in retirement. In addition, you may need to invest in other asset classes to compensate for income that once came from traditional pension plans.

Myth 8: We only have to plan for

ourselves in retirement

In recent times, there has been recognition of the sandwich generation, where individuals provide for both their children and aging relatives. Currently, approximately 25% of individuals have the responsibility of preparing for retirement while still supporting children and caring for an older adult. Most notably, 54% of individuals in their 40's have the responsibility.6

According to an AARP survey, approximately 50% of caregivers have no choice in taking the responsibility.7 Sixty percent of caregivers must make work accommodations, such as reducing hours or taking a leave of absence. Many times, caregivers must also face exiting the workforce early to provide care. Such a decision may alter their retirement future, both financially and socially. Over 50% of caregivers have difficulty taking care of their households. It also challenges them to continue to save at the same rate.

Summary

Understanding the full value of your resources can lead to a more positive experience in all stages of retirement. Mesirow Wealth Management has an 88-year history of advising clients through life events including career transition to retirement. We can provide guidance as you figure out what the value of career transition will be for you.

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