The retirement of retirement? When retirement and family needs collide

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American baby boomers have long been derided as the most self-absorbed generation in history, spending a lifetime focused on the journey within, saving too little, and spending too much on material pursuits. And while there may be some truth to the “me generation” stereotype, our research shows that when it comes to family, boomers are far from selfish.

The study, conducted in August 2006 by Brightwork Partners, focused on working adults age 45 and older in the United States, who had at least one living parent or a child age 25 or older. Results are based on interviews with 5,419 respondents, and have a maximum sampling error of plus or minus three points.

We found that a surprising number of working adults are putting their families first by providing financial and other meaningful support to their parents and adult children. Boomers will actively care for their elderly parents, and they’ll even invite their kids back home. As you might expect, the financial cost of this generosity to boomers’ savings plans is steep. The implication is that they will make up the difference by delaying retirement — or not retiring at all.

A follow-up survey of 177 Australian financial advisers highlighted key differences in the confidence, preparedness, and prospects of investors in the two countries. However, family obligations transcend geographical boundaries, and there is reason to believe the “retirement of retirement” in America may provide lessons for today’s workers in Australia.

Caught in the middle

Baby boomers increasingly are sandwiched between elderly parents and grown children, both of whom they would like to care for. Some 29.3 million working adults age 45 or older have at least one living parent, and about one fifth, or 6.2 million people, provide financial support to their parents. Approximately 23.5 million boomers have children over the age of 24, and almost half of these parents provide their adult children with financial support.

Boomers are particularly generous when it comes to their parents. Nearly 40% believe they have an obligation to help their elderly parents with day-to-day assistance, and 20% say that assistance should include financial support. What’s more, the majority of boomers say they expected to be helping their parents at this age.

Among the kinds of assistance boomers provide to their elderly parents are non-financial items such as help with household chores, transportation, and medical paperwork or medications. However, it’s clear that actual money is also being spent, including paying for holiday expenses and daily living expenses. On average, boomers claim to spend US$2,900 per year on their parents — roughly the equivalent of an Individual Retirement Account contribution.

If caring for parents is an expected obligation for boomers, then caring for adult children is clearly not what they had in mind. Boomer parents feel strongly that the sooner kids are financially independent, the better; that the role of a parent is to pass along values, not money; and that kids in their 20s and 30s who are still dependent on their parents may never become independent.

Yet a remarkable 45% of parents who have adult children are indeed contributing some form of financial support. The list ranges from helping with living expenses, to providing a place to live back at home, to paying for a car. That this new burden comes as a surprise is evidenced by the fact that 70% of boomers said they did not expect to be financially helping an adult child at this age. Moreover, those parents who provide financial support to their adult children have a sober view of how long it will last. Although many say the assistance is short term in nature, a greater number (41%) believe it will last five years or longer.

The boomer windfall: mostly wind

Much has been written about the coming intergenerational transfer of wealth. According to the Social Welfare Research Institute of Boston College, boomers stand to inherit some US$40 trillion over the next 45 years.[1] What is clear from our study is that inheritances, on balance, are not a panacea. Nor are they distributed equally.

Just 17% of workers have ever received an inheritance, and only 24% expect to. The median inheritance for our respondents is about US$38,000, which might cover some debt or help with current bills, but will not materially affect living standards for most. Only a lucky 6% have received an inheritance greater than US$250,000. But even these boomers are greater in number than lottery winners. Only 2% of today's workers have ever been so fortunate.

Vicious cycle or virtuous circle?

With the cost of housing and living expenses spiralling out of reach for both young adults and the elderly, family members are looking to others who are in their peak earnings years for help. This places a new, unexpected responsibility on the generation of adults already struggling to prepare for retirement.

Boomers say they themselves don't want to be a burden and that they've learned from the mistakes of their parents. But their inability to commit to regular ongoing retirement savings is putting boomers behind in their own preparation for retirement, making them more likely to repeat the pattern of depending upon others.

According to the Employee Benefit Research Institute, only one third of workers over age 45 have US$100,000 or more saved for retirement, despite the wide availability of savings plans and decades of employee education.[2] While Americans typically underestimate how much they need to save, they also recognise they are not saving enough. Two thirds of the respondents in our study say they are not confident they will be ready financially for retirement, while more than 40% expect that based on their preparation to date, they will have to reduce their standard of living in retirement.

Still others are opting to work well into retirement, or not retire at all. A 2006 Putnam study found that about 35% of all previously retired Americans had returned to work for pay after an average sabbatical of one-and-a-half years. While it is certainly a very healthy attitude to stay vibrant and focused and active, relying on work to shore up lost retirement savings assumes boomers will be healthy enough to continue working and will find jobs. That's not always the case.

Despite the hardships imposed by helping parents or grown children, "We Generation" boomers are noble about these responsibilities. Fifty-seven percent of those supporting parents said they were "very pleased" to make the sacrifice, and 38% of parents supporting a grown child felt the same way.

When asked what financial lessons were learned from providing support to elderly parents, respondents said they'd save money specifically to support their parents, use a professional adviser to plan their retirement, and buy long-term care insurance for their parents. Whether boomers will follow through on their own advice remains to be seen.

The Australian perspective: far from down under

To assess the impact of family obligations on the retirements of Australians, Brillient! polled its adviser base in July 2007. The e-mail survey of 177 financial advisers highlighted key differences in the saving behaviours of investors and on balance found better prospects for Australian workers. Nevertheless, the stresses of supporting elderly parents and adult children appeared in some cases, and there is reason to believe the "we generation" in America may provide lessons for Australians.

More confident and better prepared

Australian advisers polled in the Brillient! survey were confident in their clients' ability to retire on time, remain retired, and not be overburdened by parents or children needing help. Overwhelmingly, Australian advisers said that less than 25% of their retired clients had returned to work — and that most had done so out of choice rather than necessity. This stands in contrast to the estimated 35% of American retirees back at work and the 30% of American workers who say they are not confident they will have enough money to live comfortably throughout their retirement years.[3]

There are several explanations for the greater confidence of Australian workers, beginning with the superannuation programme. However, most advisers in Australia say their non-retired clients are adding to their savings well beyond what is required by their super. More than half of advisers polled said their clients were saving an additional 10% or more of their gross income. The most frequently mentioned savings goal for clients was AU$20,000 per year or 20% of total income. Although less than half of advised clients participated in the opportunity to make a one-time contribution to their supers before 1 July 2007, those that did frequently reported saving AU$50,000 or more. All told, 75% of advisers believe their clients will achieve their retirement savings goals.

Earlier retirement despite family obligations

Our survey found that most Australian advisers believe their clients both wish to, and will, retire during their 60s, although nearly 30% of clients plan to retire even earlier. In contrast to the growing numbers of working retirees in America, few Australians are expected to return to the workforce once they've retired. What's more, advisers suggest that if their clients do return to work, it will be out of choice rather than necessity.

One important factor is the amount of financial support Australians provide their elderly parents and adult children. Advisers in our survey generally believed that less than 25% of clients were providing aid to their parents or adult children, although they suggested that a growing number were spending more money on their grown children. This may be attributable in part to reasonable costs of both university education and national health care, which present significant financial hurdles in America.

However, another factor in the relatively sanguine outlook for Australian workers is clearly their fiscal discipline. Nearly all advisers said their clients have postponed large purchases to save for retirement and that saving and investment behaviour has improved in recent years.

Final thoughts

If having enough money saved for retirement was a bright spot among clients, Australian advisers said there were some financial clouds on the horizon. Many advisers pointed to estate planning as one of the issues they would like to discuss with their clients. Also on the list of potential trouble spots were portfolio construction, superannuation strategy, and aged care. On balance, however, it must be said that advised clients in Australia are better prepared and more confident about their prospects for a traditional retirement. Reasonable costs of university education and national health care preserve wealth among Australians, while the absence of reasonable costs in these areas creates intergenerational financial pressure in America. While the "retirement of retirement" is an overstatement, many citizens in both countries will redefine their lifestyles and work for both money and fulfillment after they have retired.

Endnotes

[1] *Why the US$41 Trillion Wealth Transfer Estimate is Still Valid: A Review of Challenges and Questions*, Boston College Social Welfare Research Institute, 2003.

[2] *Will More of Us Be Working Forever? The 2006 Retirement Confidence Survey*, Employee Benefit Research Institute, 2006.

[3] *The Retirement System in Transition: The 2007 Retirement Confidence Survey*, Employee Benefit Research Institute, 2007.

The 'We' Generation study was conducted by Brightwork Partners, LLC in August 2006 for Putnam Investments. There were 5,419 respondents, representing all areas of the United States, including those who have received an inheritance, working adults with at least one living parent, and working adults with at least one child age 25 or older. Forty-eight percent of respondents were men and 52% were women. The margin of error for most findings cited is plus or minus 3 percentage points. All findings are based on the results of this study. Brightwork Partners, LLC is a research-based consultancy focusing on retirement issues. Visit www.brightworkpartners.com for more information.