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Encore: Work Longer, Not Forever

By Glenn Ruffenach

We keep hearing: We will have to work longer before retiring in order to shore up our nest eggs. But how long is "longer"? New research indicates the numbers might not be as bad as you think.

The benefits of working longer are obvious. If we postpone the day we walk away from the office, we will give ourselves a better chance of adequately funding a retirement that easily could last two or three decades.

What's more, all the evidence argues for working longer. Going forward, people who retire in their early 60s will find that Social Security benefits will replace less of pre-retirement salaries (because the age at which you will be eligible for full benefits is gradually rising to 67).

Medicare premiums and taxes on Social Security are slated to climb. And the median 401(k) balance in households between the ages of 55 and 64 is only \$60,000. But is longer ... forever? **A new study from the Center for Retirement Research at Boston College offers some answers.**

At the moment, the average retirement age in the U.S. is 63. In coming years, households that depend solely on Social Security benefits would need to work an additional 3 1/2 years to achieve the same "replacement rate" in retirement as the current generation, according to the center's calculations. (The replacement rate is the percentage of one's pre-retirement salary that Social Security benefits replace in retirement.)

For households with "significant" 401(k) assets, an additional 28 months on the job would yield the same replacement rates that today's retirees enjoy. "Significant" depends on household income. A household with \$40,000 in annual earnings would need about \$100,000; a household with \$80,000 would need about \$200,000. The fact that two to three years of additional work might spell the difference in financial stability in later life means that "future retirees need not panic," the report states.

Still, most Americans "don't understand the need for [working longer], and they aren't planning for it," says **Alicia Munnell, director of the Center for Retirement Research and one of authors of the study.**

Many people, **Dr. Munnell** explains, say they plan to retire at age 65 -- but find themselves "buffeted by events" at work. A new (and younger) boss arrives on the scene, for instance, or a reorganization increases one's workload. As a result, people end up retiring at age 62 or 63 and don't recognize the strain that decision places on their nest eggs.

Ideally, older adults should "aim for a [retirement] age that provides adequate income [in later life] and then stick to that age -- no matter what," **Dr. Munnell** says.

At the very least, that age should be 65, she adds. The benefits are threefold: You maximize the value of your Social Security benefits; you give your retirement savings, such as a 401(k), more time to grow; and you shorten the period over which you have to support yourself.

Of course, all this presumes that you can, in fact, continue to work into your mid-60s. Layoffs, age discrimination and poor health mean many older Americans already are leaving jobs earlier than planned. A recent survey by McKinsey & Co., a consulting firm, found that about four out of 10 U.S. workers are retiring earlier than anticipated. Currently, only about one out of every five individuals between the ages of 65 and 74 is employed, according to the Bureau of Labor Statistics.

Dr. Munnell says about one-third of the population in coming years may not be able to work to age 65, including many individuals with lower incomes. But for the estimated two-thirds of employees who have the option to remain in the office, "working longer," she says, "is a powerful antidote to reductions in retirement income."

