

Viva the Vital

March 19, 2009

Economy Gives Boomers, Too, A Dose of Cold Reality

By Matt Thornhill

As far as we know, the origin of the expression "rose-colored glasses" pre-dated Janis Joplin and the flower children of the '60s and '70s. But based on how many in their generation -- today's baby boomers -- have approached financial planning and personal savings, the phrase is one that boomers took to heart. The future, most boomers believed, will be better off tomorrow so there's little reason to worry about it today.

At least, that's how it's been so far. Now, maybe, we're not so sure.

Recent events in the financial markets -- how's your "201(k)" doing these days? -- may have finally jolted boomers out of that overly optimistic world view. Tomorrow very well could prove to be worse than today. Right now, though, there are conflicting signals that boomers are coming out of their perpetual state of financial optimism and forming a more balanced view.

In a study we conducted earlier this year we asked boomers about their current economic condition and their predictions for the future. The majority of boomers agreed that times are very difficult right now, and most think it will remain bleak for the next year. But when they predicted their future five years out, they were much more positive. Ten years into the future, they told us everything would be great. We wonder: Based on what? Tea leaves? Crystal balls? Time travel?

THIS GENERATIONAL optimism is rooted in the long periods of prosperity from the mid-1950s through the early 1970s, when boomers reached adolescence and beyond. Growing up in a robust economy, compared to the desperation that many of our parents endured during the Great Depression and World War II, gave our generation an unrealistic view that everything will work out fine. Sure, there have been recessions before, but every single time the financial markets bounced back and reached all-time highs. Boomers accept that we're down now, but we'll be back. We always come back.

What is different this time is the timing. This recession is hitting boomers during our peak earning years, just before our "retirement" life stage when we plan to stop earning a regular income and live off the money we've made and saved all our lives. Oops.

Homeowner's equity, the major source of boomer wealth, has shriveled. One recent study estimated that 30 percent of younger boomers are "underwater" on their mortgages -- they still owe more than their houses are worth. Meanwhile, the stock market is down close to 50 percent in less than two years. Realistically, we can't expect it to bounce back as quickly. It could be four, five, or even more years before we're back to where we were in 2007.

For most boomers, this means we'll put off retiring as many years as it takes for the markets to rebound. On paper a sound plan, but one that could prove difficult to implement. The truth is that older workers lose their jobs for health reasons more often than younger workers do. The lasting recession already makes every job tenuous at best. Working to

maintain an income because there is no other income will not be an option open to millions of boomers.

OUR MOST pragmatic estimate is that about half of the boomer cohort, or 38 million, will find themselves short on income once they are no longer working. Already we know that about 19 million boomers have no money saved for retirement, except for the equity held in their house. That group is in serious trouble. Another 19 million or so are spending more than they are earning, according to a report from McKinsey, so saving for retirement is not mathematically possible. That means easily half of boomers will need to rely on Social Security and Medicare to cover basic living expenses and health care costs. Which neither program even does today.

If you really want to start worrying, consider this: There are about as many boomers unprepared financially for old age as there are Americans age 65 and older today. Yikes.

Our hope is that this recession will serve as a wake-up call to many millions of these unprepared boomers. The best solution is to do something -- meeting with a financial planner and determining a practical approach to saving money for the future is an easy start. In fact, we've just completed an assignment with the PREP Partnership (<http://www.preppartnership.com>) whose single-minded goal is to get boomers to do financial planning. Now.

We'll remain optimistic about the transformative powers of the boomer generation. Who knows, we may have it in us to start saving enough money to actually save ourselves.