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A Mini Cooper with a personalized license plate drives in Manhattan, Kan., on July 24, 2006.

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- www.fidelity.com
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Insufficient funds for retirement

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America's 45 million younger baby boomers are following a road to retirement that could lead over a financial cliff.

They're approaching their 60s with less savings, flimsier pensions and a shakier government safety net compared with their predecessors.

At best, many younger boomers -- the roughly 1 in 7 people born from 1955 through 1964 -- will have to cut their living standard as they age, financial analysts and aging experts predict.

Worse, the nation may see a long-term trend of declining poverty among the elderly reversed as these boomers get older.

"This is a profound crisis," said Larry Polivka, director of the Florida Policy Exchange on Aging at the University of South Florida.

"I think we're going to need to really address retirement security in a more fundamental way for the next generation of retirees, which is upon us now."

Younger boomers are in a pinch their older cohorts escaped and succeeding generations may yet avoid.

The ground rules for retirement fundamentally changed during the younger boomers' working years, putting the burden to prepare on them. But, ignorant of the shift, or unwilling or unable to adapt, they're ill-prepared for later life.

More than half have saved less than $50,000, compared with the hundreds of thousands of dollars financial advisers say they'll need.

To compensate, younger boomers may have to work longer or lean on the government entitlement programs they've long paid into.

But health problems, a bad economy and age discrimination could preclude work.

And the entitlement programs, Social Security and Medicare, are headed toward financial problems in the next decade.

It's a bleak intersection of demographics, economics and culture that could lead to a wreck, with implications not only for the boomers but their children, aging parents and society as a whole.

Robert Friedland, who heads Georgetown University's Center on an Aging Society, offers this advice: "Try to live as frugally as you can."

Savings deficit

Peter Butler already does. He works 65 to 70 hours a week at a bank and grocery store, and keeps a 10-year-old car on life support so he can save for a retirement he senses may never come.

"I think I'll be working forever," said Butler, 52, a south Manatee County resident. "I'm not being pessimistic; I'm being realistic."

He's right, according to financial experts, who say someone Butler's age should be well on the way to building savings in the high six figures.

Butler, who has held a variety of sales and marketing jobs, started saving when he turned 40. Since then, he has socked away about $60,000, much of it through 401(k) plans through his employers.

Compared with most of his peers, he's doing great. According to a survey last year by the Employee Benefit Research Institute, 41 percent of workers between 45 and 54 have saved less than $25,000.

That's a pittance compared with what many advisers say is needed to cope with escalating health care costs and increasing longevity.

Fidelity Investments estimates that someone earning about $42,500 -- the Florida median household income -- needs about $893,000 in savings at age 65 to maintain his or her pre-retirement standard of living.

A big chunk of the savings is needed to cover health care expenses, which have been rising far faster than inflation. The load will be heavier for future retirees, as fewer employers are offering health coverage for retirees.

Boston College's Center for Retirement Research estimates that, within 25 years, health care will consume 35 percent of a retired couple's income, more than double the current amount. Not all economists agree on the savings projections. Some argue that the figures are too conservative. John Karl Scholz, an economics professor at the University of Wisconsin-Madison, co-wrote a 2006 study of older workers suggesting that they were saving adequately for retirement. Though the study didn't cover younger baby boomers, Scholz said he sees "no immediate reason to be alarmed" about their outlook.

But others contend that people are generally unaware of how much retirement costs.

"Very few people can appreciate just how big of a pot of money they really need if they're going to be living 30 years off of that pot," said Georgetown's Friedland.

Butler, who makes about $48,000, wishes he had begun saving much earlier.

"I'd do more, but I need to have some for expenses," said Butler, an Ohio native who moved to Florida in 1988.

Economic hardship

Butler is part of a large post-World War II generation widely seen as wealthy and pampered -- the "yuppies" who bought "McMansions," drove BMWs and coasted toward a cushy early retirement.

Many older boomers, born from 1946 to 1954, have indeed prospered.

With the oldest turning 61 this year, they have spawned a small industry focusing on how they will reinvent the idea of retirement.

Some analysts predict they will use their wealth and newfound free time to plunge into civic work or move in and out of the work force to dabble in new careers.

But the broadly applied boomer label masks key differences in the generation's older and younger members.

Younger boomers generally experienced harsher economic conditions, from higher inflation and interest rates to higher housing costs and more job competition, said Brent Green, who specializes in marketing to baby boomers.

"They hit late teens and early adult years during a time of tremendous economic decline -- the late '70s and early '80s," he said.

A new survey underscores the effect of younger and older boomers' varied experiences on their attitudes. Older boomers are more likely to see themselves as independent, confident and patriotic, while younger boomers are more often "self-conscious, stressed and depressed," said Steve French, managing partner for Pennsylvania-based Natural Marketing Institute, in announcing the survey results at a national aging conference in Chicago last week.

A majority of boomers think their financial situation will improve in the next 10 to 20 years, which may be "wishful thinking," French said, given that about 20 percent have no investments outside their home. Half of all boomers "consider themselves more of a spender than a saver," he added.

Speaking at the same conference, Sandra Timmerman, director at MetLife's Mature Market Institute, said that for boomers, the "financial contract" between workers, employers and the government for secure retirement pensions "was broken."

"The boomers are saying, 'what happened?'" she said.

U.S. Labor Department statistics show that real earnings have declined since 1977, when boomers born in 1955 turned 22, from about $311 a week to $279.20. Many jobs have been eliminated through mergers, downsizings and overseas relocations.

Still, boomers are often blamed for profligate spending, fueled in part by increasingly easy credit and relentless marketing.

"They don't want to give up their iPods; they don't want to give up their cable, their new car every third year," said Dallas Salisbury, president of the Employee Benefit Research Institute.

But research by Harvard bankruptcy expert and author Elizabeth Warren indicates that frivolous spending is not to blame, and sharply higher housing, health care, transportation and other "basics" are killing families.

USF's Polivka said retirement security increased in the country from 1936 to 1980, while the period since has been dominated by "threats to security.

"A single-earner family in 1975 had a greater ability to meet expenses than two wage-earners today," he said.

Sarasota landscape custodian Ron Rispoli, 42, feels the pinch. On an income of $25,000, he saves more than many of his peers with larger incomes. It isn't easy.

"I try to cut corners," said Risipoli, who has less than $10,000 in savings. "If I'm contemplating a vacation, I think, 'How many mortgage payments would that be?' I don't run out and buy the latest and best big-screen TV or the latest fashions in clothes."

Rispoli, a Brooklyn native, eschews credit cards and counts on equity in his home, purchased for $70,000 seven years ago, to supplement his income when he's older.

Shifting conditions

When Butler took his first job in a grocery store at age 16, most workers had retirement pensions paid by employers.

Coverage was typically automatic. Employers invested the pension fund, which provided regular payments based on the worker's salary and years of employment.

But since 1980, the pension system has flipped. More workers today have plans based on their own contributions and investments.

Participation in the plans, typically a 401(k), is usually voluntary, and many people do not sign up. When they do, they often don't contribute enough or manage the money wisely.

"The boomers have just been handed the sophisticated financial management that comes with having and growing a retirement pension account," said Green.

Butler said he has never had a job that offered a guaranteed pension. That could make him more reliant on Social Security as he ages.

But Social Security doesn't pay as much as many people assume -- and younger boomers will get less than their predecessors if they retire early. Beginning with those born in 1960, full benefits don't start until age 67.

Payouts will be even lower if the program isn't changed. Social Security benefits will exceed tax income in 2017, with the system able to pay only 74 percent of benefits by 2040.

Medicare is is worse shape, as the trust fund that pays benefits will be depleted by 2018.

Fixing the problems will require sharp benefit cuts, tax increases or a combination. The longer the nation waits, the costlier.

Hitting a wall

Plenty of baby boomers say they want to work past the traditional retirement ages, to remain active or for personal satisfaction.

But a 2005 survey by a Rutgers University researcher found that late boomers, more than younger or older workers, expect to have to work at least part-time in old age because they will need the money.

Still, many will have to cut their standard of living.

"Love it or hate it, that's what a lot boomers will end up doing," Salisbury said. "The risk for the boomer is many are waiting far too long to make adjustments, so it is going to hit them like a brick wall."

Analysts at Boston College's Center for Retirement Research, called this "the golden age of retirement income" in a report issued last month.

The future is not so rosy, according to the analysis. The percentage of people "at risk" for a reduced standard of living at age 65 rises from 35 percent for early baby boomers to 44 percent for late boomers and 49 percent for the succeeding generation.

The portion of older households living in poverty as late boomers age will likely increase, the report concluded, reversing "much of the improvement in the poverty rate among the elderly" over the last 40 years.

A bad economy, with scarce jobs, could compound the problems nationwide.

"If the economy goes (south) all bets are off," EBRI's Salisbury said. "Think 1929."

Rispoli and Butler are doing their best to prepare for an uncertain future.

"It's a struggle," said Rispoli, who added that he has no family to fall back on. "I just try to muddle through as best I can and hope that I've got enough."

Butler, a Cleveland State University graduate with a history degree, was recently notified that his bank job is being eliminated in a downsizing.

He hopes to increase his hours as a stock clerk at Publix while searching for another job. Savings will have to temporarily take a back seat, along with any personal regrets about the "shoulda, woulda, coulda."

"Yeah, it bothers me," he said of the way his retirement outlook has changed over the years. "But what can I do? I have to survive."