

## If Boomers Can't Save, Who Will Save the Boomers?

I admit it. I'm a baby boomer. And I probably haven't saved as much for my retirement as I should have. But I know I'm not alone. Why is it so hard for Americans—baby boomers in particular—to save?

For some, it's the desire or need for current consumption. Instead of saving for the future, they borrow from it, resulting in considerable personal debt. Others simply don't earn enough to save for the future. Even those who can afford to save tend to want a larger house, the most recent electronic toy, or another expensive car first.

The run-up of equity markets and housing values in the 1990s made people with higher incomes feel more wealthy than they actually were, and therefore less inclined to save, thus reducing the already low savings rate. The recent bursting of the equity bubble has made it even more difficult for many boomers to save, although now many see a need to do so if they can. And in the next two decades, when the boomers begin to retire in earnest, a possible imbalance between housing supply and demand could further reduce the expected assets of some retired boomers.

Another factor could be the reduced level of personal responsibility in our society today. According to the claimants in *Pelman v. McDonald's*, being overweight isn't a personal choice. They are obese because McDonald's allegedly tricked them, enticing them with fattening food. It's basically the same argument that causes smokers to hold tobacco companies responsible for their early demise, even though they've been repeatedly warned of the hazards of smoking for decades. Are we looking to the government (or the legal system) to take care of us? How much help should we expect?

For the most part, we boomers have never experienced the true hardship of widespread economic depression. Our parents did, and that's why they felt more incentive to save than we do. It was as a result of that experience—the Great Depression of the 1930s—that the U.S. government adopted Social Security in the first place. But it was intended to be a safety net for the less fortunate elderly, not an excuse to avoid personal saving for retirement. In fact, it was only intended to serve as one leg of a three-legged support stool, with the other legs being personal and employer-sponsored savings.

Whenever I discuss retirement savings with friends, they ask me, as an actuary, whether I think Social Security will be around for them. (Most assume it won't be.) I usually respond by saying that although change to the system is inevitable, it's highly likely that something resembling the existing system will survive, although possibly with some modification in premiums or benefits. But I always add that its future existence shouldn't affect their need to save for their own future—through 401(k) contributions, mutual funds, annuities, or life insurance.

Whatever the future holds for Social Security, we can't remain savings procrastinators forever. We need to take greater control over our financial destinies by setting aside money and consciously

developing personal financial plans, however difficult implementation will be.

Most of us would like nothing better than just to live for the present. But the force of demographics—longer life expectancy, higher retirement expenses, the sheer number of retirees—will make people become more aware of their future financial needs. With reduced support for defined benefit pension programs by many employers, government can do only so much.

As more Americans face the prospect of a long retirement, debate might heat up again as to the best methods of

saving for retirement. Some favor the idea of expanding tax incentives to save more, or even partially privatizing Social Security. Maybe further government action would help, although it might be necessary to weigh the advantages and disadvantages of various approaches, including overall as well as transition costs. Nevertheless, at least because of the limited practical ability of government to increase taxes, more people will have to be made more aware and take more personal responsibility for meeting their future financial needs.

As actuaries, we need to take greater control over our own financial destinies and encourage friends and relatives to do the same. And as advisers and developers of financial products, we have an even greater opportunity. If financial products and services are attractive, affordable, and meet the needs of consumers, people will buy them. Our job is to create those products, providing incentives and the opportunity for others to save, as well as help assure that the financial institutions that provide these products are financially able to deliver on the promises made. ●



**SAM GUTTERMAN** IS DIRECTOR AND CONSULTING ACTUARY WITH PRICEWATERHOUSECOOPERS LLP IN CHICAGO.