THE INCOME GENERATION REPORT

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The Income Generation:
The Challenges We Face and How to Help Overcome Them

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Starting about five years ago I began using the term "Income Generation" to describe the demographic encompassing my clients, prospective clients, and myself. To put it simply, the term refers to today's generation of retirees and near-retirees. That means Baby Boomers but also older Gen Xers, who are also in their 50s now and nearing the age when they'll need to start preparing for retirement income.

But what makes us the "Income Generation"? Why is it so important for our generation to understand the benefits of investing for income — more so than previous generations? I'll answer those questions in this report while also sharing a host of facts and tips to help meet your own retirement income needs and goals.

The simple fact is, the Income Generation faces a host of unique challenges — meaning challenges different from those faced by our parents and grandparents. So, let's start by talking about perhaps the trickiest of these challenges, which is the fact that we live so long.

Longevity

The average life expectancy today in the U.S. is 78.7 years, compared to 68.2 years in 1950. Advances in healthcare have made it possible for people to remain active and productive well past age 65. As a result, you might want to work well past that age, or not retire at all. This is all great on the one hand, but it can also lead to problems, mainly financial ones.

Be aware, if you're a couple in your 60s today, statistically there is a 50% chance that at least one of you will live into your 90s. That means you need a strategy designed to help provide financial security and retirement income for up to 30 years. Not 20 years. Not 25, but 30 years. Now be aware that the average person is psychologically wired to think and plan no more than five to ten years into the future. And even the average financial advisor doesn't see much further than that.

But that's where the investing-for-income model comes in. An income specialist does see 30 years ahead and helps you prepare for every possible issue and contingency during that time. And there are a lot of them to consider: Social Security, your required minimum distributions, estate planning, family issues, potential health issues, the financial markets, inflation, and, especially, healthcare inflation just to name a few.

I say especially healthcare inflation because it's different from regular inflation and affects retirees differently, meaning it hits them much harder. That makes the skyrocketing cost of healthcare another of the unique challenges facing the Income Generation.

Healthcare Inflation

Since 1948, the second year of the Baby Boom, the price of medical care has grown at an average yearly rate of 5.3% compared to 3.5% for the consumer price index overall.[1] Do the math and you realize that healthcare and medical costs are basically doubling every 12 years. And if you're not aware of that, here is just one potential danger:

If you're in your 60s now, you might figure, based on current rates, $150,000-to-$200,000 a year would be enough to cover the cost of in-home healthcare if you ever need it someday. But if you factor in healthcare inflation, by the time you actually need that in-home care, the yearly cost may have risen to between $600,000 and $800,000!

The 'Sandwich Generation'

Complicating matters further for many people today is another challenge related to longevity, which is the fact that many Americans nearing retirement are also caring for an aging parent. Some are providing care directly, others indirectly. In either case, it often creates a financial burden — and even when it doesn't, it can keep you so focused on your parents' needs that you may end up neglecting your own. Plus, if you're like a lot of people, you may also have grown children that you're still helping out in some way, including financially.

The bottom line is that the burdens of the so-called Sandwich Generation are especially widespread in the Income Generation. In some worst-case scenarios, Americans in their 50s and 60s are bankrupting their own retirement accounts to help their parents and kids. And they're doing it with no backup plan for their own financial security even 10 or 20 years down the road, let alone 30 years.

It's a tough situation, and not just financially but emotionally. Naturally, we all love our parents and our children and don't ever want to think of them as a burden. Nor do we want to be a burden to them someday, which highlights still another reason why having the right retirement income plan is so important!

No More Pensions

Another challenge unique to the Income Generation is that pension plans are, for the most part, a thing of the past. In their glory years, pensions were a vital part of the culture at many companies. Your father or grandfather may have worked at a certain company his entire career mainly because of its pension plan. But times have changed.

In the last 20 years, the percentage of Fortune 500 companies that offer a traditional pension plan has dropped from 59% to 16%, according to one study. Pension plan freezes and payout offers have also risen during this time. According to the Bureau of Labor Statistics, only 4% of American workers today have access to a traditional, defined-benefit pension plan.[2] Even if you're in that 4%, your pension may not be as reliable an income source as your father's or grandfather's was.

But why did pensions go away, and what does their loss mean for The Income Generation? Pensions remained popular until the 1980s. That's when interest rates overall started to decline. This trend meant employers had to start making larger deposits into their pension funds to cover liabilities. But at around the same time, mutual funds were becoming popular. As a result, employers saw a way to pass the liability for retirement accounts onto their workers through self-funded plans like 401ks.

To explain that in more detail, consider the basic differences between a pension and a 401k. Both provide a means of saving for retirement. But the way they accrue money differs in terms of two things: who owns the risk, and who has the responsibility of managing the investments.

With a pension, the employer pays into a pool of money, and sometimes you pay in, too. Then the employer invests that money in the hope it grows enough to pay you a defined benefit when you retire. If that doesn't happen, the investment money may fall short of the defined benefit. In that case, your boss is on the hook to pay the difference out of the company's profits.

That's exactly why most businesses were eager to shift their retirement programs from pensions to 401ks: because it shifts most of the risk away from the company and puts it on you. The onus is now on you to manage and make decisions about your own account, and to hope that during your prime working years it keeps growing. Granted, most companies try to make this process easy by automatically enrolling new workers and matching their contributions. But typically, the default contribution amounts are small at around 3%. That means it's up to you to decide to invest more, which, again, takes the risk and liability away from your boss and puts it on you.

A New Age of 'Economic Uncertainty'

In the late 90s, I was a young financial advisor doing some independent research when I discovered that everyday investors of a certain age were about to face yet another unique challenge: a seismic shift in the financial markets.

I saw it coming in the form of the bursting dot-com bubble and the 2000-to-2002 market crash. But I also knew that would be only the beginning. I knew another major crash would follow in less than a decade. And it did, of course, with the 2007-to-2009 correction kicked off by the Financial Crisis.

What I could never have foreseen, however, is the extent to which the Federal Reserve would use artificial stimulus to try to rebuild the market and the economy after that second crash. Or the extent to which other central banks around would follow our bad example and start injecting their own economies with huge amounts of economic steroids.

What all this economic steroid abuse has done is usher in a new age of economic uncertainty — an age in which it's more important than ever to have a true financial strategy for retirement, not just a plan based on certain assumptions about the markets. Most of those old textbook assumptions are no longer reliable. The game has changed dramatically.

The Income Generation

Every generation has its own challenges: cultural, social, political, and economic. As you can see, that's certainly true for today's generation of retirees and near-retirees. In our most critical years of saving and investing, we've lived through two of the worst stock market crashes in history, along with what had been the worst economic downturn since the great depression: the financial crisis. The icing on the cake, of course, was the coronavirus recession!

But even before the Fed's response to all these disasters created a new age of economic uncertainty, our generation had other unique challenges to contend with: longer life spans, soaring healthcare costs, the loss of pensions, and the pressures of being generationally "sandwiched," just to name a few.

As a result, I changed my business model 25 years ago because I knew that my approach to investing for income was the key to tackling all these challenges. The good news is that other advisors have followed in my path, creating a nationwide network of Income Specialists, and laying the foundation for Sound Income Group and my Retirement Income Store, which were created specifically to serve you, the "Income Generation!"

Source:

1. https://fredblog.stlouisfed.org/2017/07/healthy-inflation/

2. https://money.cnn.com/retirement/guide/pensions_basics.moneymag/index7.htm

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