

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase, sans-serif font, set against a dark blue, parallelogram-shaped background.

The Wise Investor Group

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Retirement: Right Around the Corner or Further Down the Road?

Over the past three decades, 401(k) plans have grown to become the largest private-sector employer-sponsored retirement plans in the United States. Once a year, the Investment Company Institute and Employee Benefit Research Institute sample more than 23 million 401(k) participants, amassing \$1.4 trillion in assets. Detailed in the report is analytical analysis shedding light on contributors as a whole, portioned off into age categories. We believe this insightful survey gives us another glimpse at the demographics of our domestic labor force, especially baby boomers, as they near retirement. While interpreting the report, we found some alarming statistics that got us thinking about retirement, the future labor force and possible investment risks. In our opinion, the following five points from the survey are compelling:

- 1) At the end of 2010, 401(k) balances averaged \$60,329, compared to \$55,502 in 1999. Keep in mind that balances account for returns on investment, contributions and withdrawals. Even though the balances have increased, they have done so at a rate less than 1 percent annually. Inflation has averaged greater than 2 percent during the time period, meaning balances are actually lower when you factor in the loss of purchasing power.
- 2) Of the 401(k) participants eligible for loans, 21 percent had loans outstanding against their 401(k) account. Employees taking loans is up 18% since the year-end 2008. Are participants trying to help subsidize mortgage payments by borrowing money? We hope not, but currently we don't possess enough data to draw an accurate conclusion. In today's society, many households have both adults working and are dependent on that dual income. Coupling this with lower wages and a lower savings rate during the same time period, we are led to believe we have a workforce that is strapped in many ways.
- 3) The average age of 401(k) participants in 2010 was 54 years old, suggesting that the typical 401(k) participant may be considering retirement within the next 10-15 years. This is alarming because of the average 401(k) balance of \$60,329 (as discussed previously.) While \$60K is a lot of money, it is certainly not enough to live off of, especially if the prospects for inflation are rising. The average person needs to either save more or work longer, which affects those coming out of college and grad school looking for jobs as well as discretionary spending.
- 4) Younger participants tended to favor equity-balanced investments, while older participants were more likely to invest in fixed income securities. For example, among participants in their 60s, the average allocation to fixed income was nearly 45%. In our opinion, at some point in time, all the monetization by the Fed will spur periods of heightened inflation to which the domestic economy is not accustomed. This may in turn put pressure on interest rates to rise and could have an adverse effect on fixed income portfolios. What may feel like doing the right thing for participants as they near retirement may end up causing some heartburn.
- 5) Participants with more than 80 percent of their balances invested in stocks dropped to 40 percent. In our opinion, that is too much equity exposure at any age, especially while the secular equity bear market continues to roar. We believe the psyche should temporarily change from "How

much return will I make on my money?” to “Will my money be returned to me?”. Today’s investing is more about risk management than managing returns.

The Bottom Line: Save More

We could sum up the takeaway from this analysis with two words: “save more”. The two cyclical equity bear markets and the housing crisis of the last decade have paralyzed many investors. Taking the data in the ICI and EBRI survey one step forward, we believe that many of those nearing “traditional” retirement age may not have enough in their 401(k) to retire. The average age of the labor force will likely continue to rise because of the financial hardships endured, which will further handicap retirement plans. There is only a finite amount of funds to support retirement. While it is great if you have a job, those looking for one or hoping to get a promotion may have to wait longer than expected due to an aging workforce delaying retirement. The bargaining chips could remain in the employers’ hands regarding wage inflation and deflation.

Until next week, we wish you Wise Investing!



To learn more about The Wise Investor Group and how we can help you build your wealth management strategy, [email us](#) or call 866-758-9473.

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