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Working toward Retirement

By Louis E. Conrad II, CFA

- Many workers find themselves behind in saving for their retirement.
- Some expect to continue working past the traditional retirement age of 65, but not all will be able to, most often due to their own or a family member's health issues.
- A retirement planning analysis from COMPASS can incorporate such an occurrence and determine how well you are positioned for retirement.

Most current workers (68%) expect to retire at the age of 65 or older, though the experience of most current retirees (69%) was to retire before reaching age 65, according to the 2013 Retirement Confidence Survey conducted by the Employee Benefit Research Institute and Mathew Greenwald and Associates, Inc. Further, the median retirement age for current retirees who were surveyed was 62. Why is there such a discrepancy for the age at which to retire between the expectations of current workers (future retirees) versus the actual results experienced by current retirees?

In this same survey, retirees cited several reasons for retiring earlier than they had planned, with a decline in their health or incurring a disability (55%) or the

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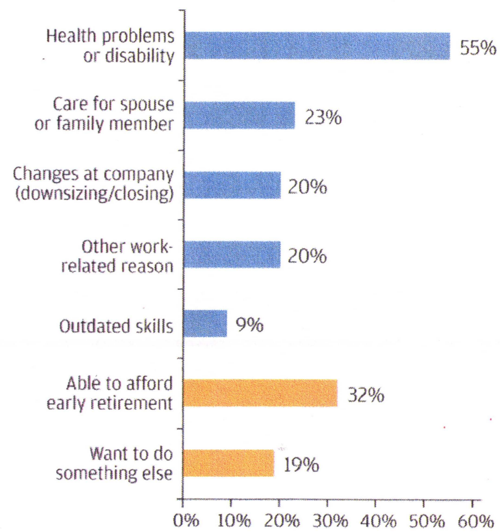
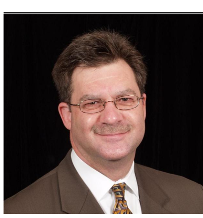
Reasons Cited for Retiring Earlier than Planned



Source. Employee Benefit Research Institute and Mathew Greenwald and Associates, Inc., 2013 Retirement Confidence Survey as adapted by JPMorgan Asset Management



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More about COMPASS Wealth Management, LLC

COMPASS Wealth Management, LLC is a client-focused wealth management firm dedicated to providing superior advice to individuals, families, and corporate retirement plans.

Our wealth management services include investment management, retirement and gift planning, education funding, and other advisory services.

We take pride in offering you expert financial advice along with personalized service. Assisting you in reaching your financial goals is our business and we take that responsibility very seriously.

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Working toward Retirement, continued

need to care for a family member (23%) as the most often cited reasons. Work-related reasons were cited next, such as (1) the downsizing or closing of their workplace (20%); (2) some other work-related reason (20%); or (3) outdated skills (9%).

On the positive side, 32% retired earlier than they had planned because they determined they had sufficient assets to retire, while 19% responded that they wanted to do something else with their time.

Working in Retirement

Though some may retire before age 65, an increasing percentage of workers continue to work past 65. Based on 2010 data from the Bureau of Labor Statistics (BLS), 31.5% of those 65 – 69 years of age were employed, while 18% of those 70 – 74 were working and 10.9% of those 75 – 79 were working. By 2020, the BLS projects 37.8% of 65 – 69 year olds will be working, 22.8% of 70 – 74 year olds, and 15.2% of 75 – 79 year olds.

Of those working past 65 years of age, most are doing so out of desire, while others are working out of necessity. Based on the 2010 Retirement Confidence Survey, for those who wanted to work during their retirement, 60% elected to work to remain active and involved and 59% indicated they enjoyed working. For those who found that they must work, 26% were doing so because of a decline in the value of their investments, 21% to buy extras, and 17% to meet their living expenses. Another 15% were working to maintain their insurance or other benefits.

Summary

While a greater proportion of people are working past the long-held retirement age of 65, many are forced to retire earlier than planned, often due to personal or family health issues. An unplanned, early retirement can place significant strain on the financial resources necessary to meet your future living expenses. This requires careful retirement planning so that you do not experience a shortfall.

Monthly Market Commentary

The U.S. market returned 8.3% so far this year (as of the end of the third quarter). The U.S economy appears to be holding its own despite setbacks in the rest of the world.

Employment: Private sector employment growth has been stuck in an exceptionally narrow range of 2.0%–2.2% year-over-year growth since 2011. As suggested by a falling unemployment rate (5.9%), recovery-low initial unemployment claims, and wage growth in select categories, Morningstar economists believe the economy may face spot labor shortages in 2015. That could mean that pay rates in some industries will need to go up. That could also pressure corporate earnings in the year ahead, along with rising interest rates and an increase in the trade-weighted dollar that has now appreciated by close to 12%. 2015 could be the first year when it might be better to be an employee than an employer.

Consumption and Income: For most of 2014, income growth has been excellent while consumption growth has been volatile and much slower. Between December and August real wages are up 3.1%, real disposable income is up 2.8%, and consumption a meager 1.4%. The premise and reason for optimism, at this point, is that incomes don't grow faster than consumption for long in the United States. As inflation backs down again and the job market continues to improve, consumers are likely to increase spending in the back part of 2014, which in turn should help push overall third-quarter GDP growth.

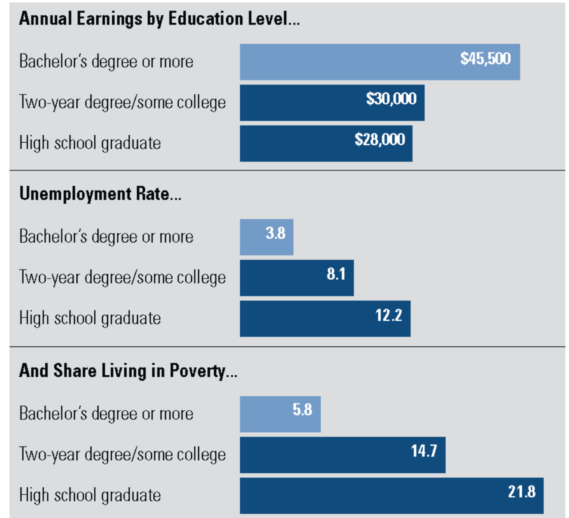
Trade: The trade deficit shrank from $40.3 billion in July to $40.1 billion in August. The inflation-adjusted deficits for July and August are running considerably lower than the slightly inflated numbers of the second quarter. Net trade took 0.4% off of GDP growth in the second quarter and is likely to add 0.2% in the third quarter, providing potential for a meaningful swing. Unfortunately, trade may hurt the U.S. economy in the fourth quarter because of a stronger dollar.

Quarter-End Insights: 2014 was to have benefited from a huge swing in the government category as well as a continued big rebound in housing and a strengthening world economy. That didn't happen. Housing slowed because of affordability and credit tightness. Government did get a little better, but not nearly as much as hoped, as last year's budget agreement weighed on spending. In fact, as fiscal 2014 draws to a close, federal government spending looks to be lucky to grow at 1%, before adjusting for inflation.

Furthermore, world growth has been a big disappointment. After just one year of mediocre growth, Europe didn't show any growth at all in the second quarter. China, too, has been a disappointment, with both exports and real estate turning in poor results. China's currency has been weaker, also, which has helped exports to the U.S. and hurt imports. The bright side to this surprising world weakness has been more liberal central banks, falling inflation rates, and lower interest rates.

Lately, there was some fear that in the long term, U.S. GDP growth could slip well under 2%. That is as overblown as the expected return to 3%-plus growth was just a few short years ago. First and foremost, residential spending has yet to return to its normal level (5% of GDP), despite population growth and five years of economic recovery. Exports to the rest of the world will also help keep the U.S. growth story afloat. Airliners are likely to be in strong demand throughout the world over the next 10 years. With long production and design cycles, competition for the U.S. airliners will prove minimal. Growing agricultural demand and growing oil-related exports should also keep the U.S. ahead of the developed world growth rates. Demographics, however, including lower population growth rates and an unfavorable shift to older, lower-spending consumers, may keep a lid on long-term economic growth.

The Rising Cost of Not Going to College



Notes: Chart depicts disparity among "millennials" aged 25-32 by education level in terms of annual earnings. Annual earnings figure is the median among full-time workers, in 2012 dollars. Median annual earnings are based on earnings and work status during the calendar year prior to interview and limited to 25- to 32-year-olds who worked full time during the previous calendar year and reported positive earnings. "Full time" refers to those who usually worked at least 35 hours a week last year. The unemployment rate refers to the share of the labor force (those working or actively seeking work) who are not employed. Poverty is based on the respondent's family income in the calendar year preceding the survey.

Source: Pew Research Center tabulations of the 2013 March Current Population Survey (CPS) Integrated Public Use Micro Sample.

A recent study from the Pew Research Center found that on virtually every measure of economic well-being and career attainment, from personal earnings to job satisfaction, young college graduates are outperforming their peers with less education. Moreover, the findings show that when today's young adults are compared with previous generations, the disparity in economic outcomes between college graduates and those with a high school diploma or less formal schooling has never been greater in the modern era.

Millennial college graduates aged between 25 and 32 who are working full time earn about $17,500 more annually than their peers who only hold a high-school diploma. This pay gap was significantly smaller in previous generations.

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