Tax

FinancialPlanning

Gen X and retirement: Not a pretty picture

The oldest Gen Xers are at the front line of the retirement challenge. Here's what financial advisors need to know.

By Lynnley Browning January 31, 2023, 10:30 a.m. EST 5 Min Read

It's a mainstream warning from the wealth management industry: Most Americans aren't stockpiling enough money for their golden years. But at the front line of what's called a broad retirement crisis stand vulnerable savers within a particular age group.

Senior members of Generation X, who are now between the ages of 43 and 58, face a potentially acute financial crunch, according to the Society of Actuaries. That makes a good chunk of the roughly 63 million cohort a major test of how wealth advisors can best help clients at an age when they need it most, according to the Society of Actuaries.

For a person of any generation, the last decade or so of earning power is typically a "crucial make-or-break time when it comes to retirement planning," the SOA, a trade group for actuaries, says — especially as increased longevity means living without earning from labor can last 30 years or longer. Older members of Gen X, who were born between 1965 and 1980, have roughly 10 solid work years left to ensure their retirement happens.

They also have higher student loan debt. Add to that the decline of defined-benefit pensions plans, the 2008 financial crisis and economic turmoil caused by the COVID-19 pandemic, and "Gen Xers do not appear to be as well prepared as older generations for retirement," SOA said in a report last February. "Many are looking ahead without much savings for retirement."

The gloomy takeaway comes as an aging America prompts big changes to retirement laws. Last month, the Securing a Strong Retirement Act of 2022, a federal package known as SECURE 2.0, laid out new rules for making "catch-up" contributions later in life and taking money out of tax-deferred retirement plans, and promulgated provisions for more businesses to offer retirement plans and nudge their employees to contribute. By 2028, Gen X is set to overtake baby boomers, who were born between 1946 and 1964, according to Pew Research Center. By 2030, all boomers will be older than age 65.

"Considering both how Gen Xers fall within normal working age and their proximity to retirement, Gen X is of unique and important interest when it comes to evaluating retirement readiness and financial security," the SOA study said.

If World War II individuals were the Greatest Generation, Gen X may be the least-confident generation. Barely 1 in 4, or 22%, reported in a TransAmerica retirement survey published last October, feeling "very" confident they will be able to fully retire with a comfortable lifestyle. Only 28% "strongly agree" they are building a large enough retirement nest egg.

Oops, I forgot to save for retirement

Older members of Gen X are "of unique and important interest" due to historical factors including the decline of private-sector pensions plans, the shift to 401(k)s during their peak earning years, the 2008 financial crisis and economic turmoil caused by the COVID-19 pandemic, SOA said. And they provide a preview of the retirement concerns of the generation after them, millennials.

The employer-sponsored 401(k), which allows savers to contribute pre-tax income to a tax-deferred account, took off only in 1980 under a sweeping federal law that fundamentally changed how Americans save for retirement. Since then, the number of defined benefit pension plans, once the workhorse of the retirement industry, has steadily declined.

That means that the oldest of the boomers, who were born between 1946 and 1964, were roughly age 35 before they could start saving in a 401(k). Meanwhile, the number of corporate pension plans with 100 or more members has plunged by nearly two-thirds from nearly 26,000 in 1983, the peak, to around 8,400 in 2016, according to the AARP, which cited the most recent Labor Department data.

The oldest Gen Xer bumps up against the youngest millennials, whose cohort was born between 1981 and 1996. But instead of resembling the boomer generation that preceded it, Gen X is more likely to mirror millennials when it comes to feeling and being financially secure and ready for retirement.

"Many Gen Xers align closer with the financial behaviors and status of millennials," the SOA study said.

Blame historical shift during their lifetime in how retirement is achieved.

Gen Xers are less likely to have a pension plan compared to older generations. Around 1 in 3 of the cohort reported in the study that they or their spouses will receive a pension, vs. roughly one in two of boomers.

That means Gen X and those that follow will need to rely on their savings in individual retirement plans, employer-sponsored 401(k) accounts and Social Security to, at worst, make ends meet, and, at best, maintain a comfortable standard of living.

"The Gen Xer is more focused on saving because they are afraid that Social Security won't be there when the time comes," said Carlos Legaspy, the president and CEO of Insight Securities, a brokerage in Highland Park, Illinois. "However, the Gen Xer is usually also willing to take risks and buy the dip as they feel it is a race against time."

A spanner in the works came thanks to the 2008 financial crisis, the most severe of its kind since the Great Depression. At the time of the downturn, "Gen Xers were at the beginning to early half of their careers, some of the most important years for laying a solid foundation of financial security," the SOA study said. From 2007 to 2010, the median net worth of Gen X households plunged 38% to $39,200 from $63,400, according to Pew Research Institute.

What to do

The SOA surveyed 2,017 individuals of various generations in January 2021. It found that while 22% of Gen Xers have over half a million dollars in their savings and investments, 1 in 4 reported having less than $10,000, the same as millennials.

While financial advisors work to increase the net worth of clients of all ages, Gen X customers require a particular touch, the report suggests.

The report's recommendations include:

- Working toward a specific goal
- Boosting savings for the next few years
- Avoiding tapping into retirement savings prematurely
- Maxing out employer-matching contributions in a 401(k)
- Working longer
- Delaying taking Social Security benefits to age 67
- Keeping skills and contacts up to date to improve employability
- Increasing financial and retirement literacy
- Reducing living expenses
- Avoiding high-cost credit card debt
- Staying healthy and considering life and disability insurance

"Even with all the competing priorities jockeying for space within the family budget, we stress how important it is for our Gen X clients to remain committed to retirement savings," said David Johnston, the managing partner of Amwell Ridge Wealth Management in Flemington, New Jersey.

"You can borrow money to buy a home, car and for college," he added. "There's not a bank on the planet willing to lend money to finance someone's retirement."

Lynnley Browning Managing Editor, Financial Planning