Demographics and retirement

It's pleasant to look ahead to retirement and the time when relaxation and enjoyment will replace the stress and routine of the working world. Perhaps you've thought in terms of working later than the traditional age 65 retirement date. Or maybe you're hoping to have the opportunity to take an early retirement package.

Wherever you fall within the spectrum, you'll want to consider some of the points raised by Robert D. Arnott and Anne Casscells in an article entitled "Demographics and Capital Market Returns," which appeared in the *Financial Analysts Journal*. They report that, for people retiring in the next two decades, demographic considerations should play an important role in their planning.

The Social Security dilemma

Thanks to the baby boom (1946-1964), the proportion of people aged 65 and older will grow from the current 12% to 20% by 2030. Then factor in the "baby-bust" period (1965-1990) plus an average life span today of 76.6 years. Result: a future when fewer workers will be contributing to Social Security at a time when a large group of long-living retirees is receiving benefits.

A future market with fewer buyers?

Retirees and near retirees often make a decision to reshape their portfolios, substituting investments that offer a reliable income, such as bonds, for more risky equity investments. The conclusion to draw here, say Arnott and Casscells, is that there won't be sufficient buyers for the large number of securities that people will be trying to sell as they enter and live in retirement, creating a potential for a sustained soft market.

Rising health care costs

The conventional wisdom is that expenses in retirement will be substantially less than they were in your working years, requiring a lower annual income stream. That assumption as well must be challenged because of demographics, say Arnott and Casscells.

With more people living longer, the law of supply and demand suggests that the cost of health care services will continue to escalate in the coming years. (The same may be true of prices for any retirement-related goods and services as well.) Thus, you may want to adjust your projection of retirement expenses to reflect a higher cost of living than you may have at first assumed.

Exploring your options

What can you do in light of these daunting demographics? Some choices may not be feasible (retiring abroad to somewhere with a lower cost of living and a younger work force) or may be unappealing (delaying retirement far later than you wish).

But before you make any hard-and-fast decisions, a good first step is to develop or review a retirement strategy that puts all the relevant facts into perspective. For instance, you may want to reassess your income and expense projections in order to make certain that they are realistic in light of some of the points raised here.

You will want to ask other questions, too: Are there ways that you can set aside more for retirement? Are there investment choices that offer you the possibility of a higher return at a risk that you are willing to accept?

In other words, it's not all "doom and gloom." We'd be glad to help you find answers to these retirement planning questions and implement any changes that may be necessary in light of the coming numbers crunch.

Any developments occurring after January 15, 2007, are not reflected in this article.