Six Bad Excuses for not Saving for Retirement

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Do You Need an Excuse?

Like the proverbial grasshopper, some people neglect to save for retirement and have plenty of excuses to justify their lack of foresight.

Every year, the Employee Benefit Research Institute conducts its retirement confidence survey to gauge how prepared Americans are for retirement. The 2010 survey, released in March, found that 54% of workers have less than $25,000 saved, excluding the value of their home and any defined benefit plans.

The justifications are endless and investment advisers have heard them all. While some excuses are grounded in reality, others defy logic.

I'm Paying for My Kid's College Education

Higher education costs money, as does retirement. Though it's a noble goal to fund Junior's college education, it shouldn't come at the expense of saving for retirement.

"Everyone wants to retire; not every kid goes to college," says Peter Donohoe, Certified Financial Planner at PRW Associates in Quincy, Mass.

"If you do have kids that go to college, there are options for kids, student loans and scholarships," he says.

Obviously, no such loans exist for retirees. Given the near extinction of defined benefit plans — those pension plans where companies foot the retirement bill — workers need to completely overhaul their spending and saving priorities.

“People have not been willing to make the sacrifice to save more for retirement. This is really going to hit home when we see people hitting retirement age and not being able to retire,” says Carrie Coghill Kuntz, director of consumer education for FreeScore.com.

My Parents Died Young

Expecting to die young is not a retirement plan. It’s tragic when it happens, but it cannot be relied upon as a reason to spend every cent in the present.

“Health and medicine are different now, and statistics are showing that people are living a decade longer. What happens if you don’t die at 60?” says Certified Financial Planner Susan Hirshman, president of SHE Ltd., a financial services consulting firm, and author of “Does This Make My Assets Look Fat?”

Another investment adviser runs her clients’ financial plans to age 100.

“We tell our clients to have their retirements funded 120%. I say, ‘Listen, do you have an aunt or uncle who lived into their 90s?’ People don’t realize how much they really need to save for retirement,” says Rosann Roge, a Certified Financial Planner at R.W. Roge & Co. in Bohemia, N.Y.

The prospect of being a penniless 99-year-old should spur many people to save more, but procrastination persists.

I’ll Live on Social Security

According to the 2010 trustees report from the Social Security Administration, Social Security reserves will run out in 2037. Projected tax income should be able to cover 75% of benefits through 2084. The best-case scenario for younger generations of Americans, with no action from Congress, is 75% of their scheduled benefits.

That will be far from adequate to cover living and health care expenses. Today, full Social Security benefits barely allow seniors to surpass the poverty line. The average monthly benefit for retirees is $1,172, according to the Social Security Administration.

“People believe that their lifestyles will change significantly in retirement. And study after study has shown that it does not. Many planners say that people will need 70 (percent) to 80% of their working income as retirees. I’m up there closer to 100%,” says Hirshman.

As the maximum Social Security payout is $2,300 per month, it’s likely that savings will have to make up a large portion of your future retirement income.

I’ll Keep Working

More Americans are continuing to work into their golden years. The Bureau of Labor Statistics predicts that by 2018, workers 55 and older will make up nearly a quarter of the country’s working population, or 23.9%.

“My biggest worry is what happens to those people when they physically can’t work anymore,” Kuntz says.

Hirshman agrees.

“Studies show that the reason people retire early has to do with health issues more than anything else. You never know what your health is going to be,” she says.

Not to mention the state of the job market.

A study from the John J. Heldrich Center for Workforce Development at Rutgers University found that workers who lost their jobs in 2009 as a result of the recession were still struggling six months later. Only 12% of those 50 and older had found full or part-time work compared to 21% of workers ages 30 to 49, and 29% of those ages 18 to 29.

Clearly, the health of the job market is far from certain, and jobs will not always be abundant.

Too Many Current Expenses

Not everyone fritters away their money on junk. In many cases, there are just too many expenses in the present to even think about the future.

The expenses can run the gamut from workers sandwiched between the expenses of young kids and elderly parents to student loan payments or credit card debt.

“There are so many current obligations and expenses that some people are not thinking about themselves. They are just making ends meet and hopefully, by some miracle, have some money for retirement,” says Hirshman.

No matter what the cause, the cure for overextended finances may be old-fashioned budgeting.

“Getting back to the basics in terms of budgeting can help someone find the resources for saving for retirement. It’s like making your mortgage payment. It has to be done. It hasn’t sunk in yet how important it is,” says Kuntz.

That means tracking expenses and cutting spending to the bone.

“You have to look at trade-offs, what is it going to take to get (to retirement),” says Hirshman. “Don’t consider it deprivation today. Think of what you’re getting tomorrow.”

I’m Unemployed

With no income, retirement planning is forced to take a backseat to such trivialities as food and shelter.

“Retirement savings is one of the first things to go because it is discretionary. In order to live, you don’t need to squirrel away 10% of your pay,” says Donohoe.

Though anyone who's unemployed would like to save as much as possible, it can be difficult to make retirement contributions when the job search turns into a six-month slog.

"There are times when clients really do need to lower how much they are saving for retirement in these situations," says Donohoe.

Once you're back on your feet, retirement planning can swing back into full force.