No Country for Old People

Reports from AARP and EBRI find the U.S. retirement outlook is bleak

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A famous faux commercial from "Saturday Night Live" has actor Sam Waterston as pitchman for Old Glory Insurance. Waterston, star of NBC's "Law & Order," warns of a dire threat plaguing the nation. He plays it so straight it isn't until the nature of the threat is revealed that the viewer understands the joke–robots are attacking the elderly.

"As a senior citizen, you're probably aware of the threat robots pose," Waterston deadpans. "Robots are everywhere, and they eat old people's medicine for fuel."

It’s pretty amusing, especially against the backdrop of a low-tech, Gort-style 1950s robot smashing through an elderly couple's bedroom door to gobble their pills. But a slew of new research reports find the nation’s retirees might not be so off base in their fears for the future. While not surprising, given the ongoing debate over retirement income and government benefits, the reports bring the increasing direness of the situation into stark relief.

A top-heavy workforce with fewer replacement workers is further saddled by credit card debt, according to “In the Red: Older Americans and Credit Card Debt” from AARP and Demos. It finds middle-income Americans age 50 and older carry more credit card debt, on average, than younger people. More worrisome, it’s a reversal of the trend Dēmos found in its 2008 survey.

But the report notes some good news. The 2009 Credit Card Accountability, Responsibility and Disclosure (CARD) Act appears to have influenced the way consumers manage their credit card debt by helping them to pay down balances faster and avoid late fees and over-the-limit fees. This suggests that credit card debt among older Americans is primarily a reflection of difficult economic times, not a lack of personal financial responsibility.

The Employee Benefit Research Institute (EBRI) weighs in with two reports of concern for older Americans. The first finds their debt levels have spiked. Specifically, American families headed by individuals age 75 or older had increases in the incidence of debt, the average amount of debt held, and the percentage with debt payments greater than 40% of their income in 2010, the latest year in which numbers were available.

In contrast, families headed by those with ages just before normal retirement age (55–64) and just after (65–74) had very small changes in these debt measures and in some cases improvements.

In a separate report, EBRI found that although older Americans somehow avoid dipping into their savings, one-in-five outspend their income by a staggering 50% or more. Specifically, the report found that in 2009, 14.3% of households with members age 65 and older had spending that exceeded 175% of their household income, and 19.2% age 65 and older outspent their income by 50% or more.

The report also confirms earlier research that for all age groups above 65, Social Security remains the primary source of income. In 2009, households ages 65–74 and households with members age 85 or older received 54% and 66% of their total household incomes, respectively, from Social Security benefits. Income from pensions and annuities is the second-largest source of income for older households.

Finally, HSBC reports that when all is said and done, retirees will spend the last seven years of retirement in “pain” as their savings run out.

“The Future of Retirement: A New Reality,” finds that Americans will, on average, run out of all funds beyond their state and occupational pensions some 14 years into retirement, thus leaving them potentially unprepared for additional living expenses in later retirement, such as funding long-term care.

The report also concludes that the average length of retirement internationally is now 18 years while the average retirement savings are expected to last for just 10. It predicts the situation is only likely to worsen as life expectancy continues to rise around the world.

Read Why So Many Americans Die Poor, and Other Big Retirement Questions: MIT’s Poterba, by Gil Weinreich, on AdvisorOne.