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A GENERATION OF AMERICANS IS ENTERING OLD AGE THE LEAST PREPARED IN DECADES

Low incomes, paltry savings, high debt burdens, failed insurance—the U.S. is upending decades of progress in securing life's final chapter

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Americans are reaching retirement age in worse financial shape than the prior generation, for the first time since Harry Truman was president.

This cohort should be on the cusp of their golden years. Instead, their median incomes including Social Security and retirement-fund receipts haven't risen in years, after having increased steadily from the 1950s.

They have high average debt, are often paying off children's educations and are dipping into savings to care for aging parents. Their paltry 401(k) retirement funds will bring in a median income of under $8,000 a year for a household of two.

In total, more than 40 percent of households headed by people aged 55 through 70 lack sufficient resources to maintain their living standard in retirement, a Wall Street Journal analysis concluded. That is around 15 million American households.

Things are likely to get worse for a broader swath of America. New census data released this week shows the surge of aging boomers is leaving the country with fewer young workers to support the elderly.

Individuals will find themselves staying on the job past 70 or taking menial jobs as senior citizens. They'll have to rely more on children for funding, pressuring younger generations, too.

Companies, while benefiting from older workers' experience, also have to grapple with employees who delay retirement, which means they'll be footing the costs of a less healthy workforce and retraining older workers.

And for the nation, the retirement shortfall portends a drain on public resources, especially if seniors reduce taxable spending and officials decide to cover additional public-assistance costs for older Americans who can't make ends meet.

"This generation was left on their own," said Alicia Munnell, director of the Boston College Center for Retirement Research. The Journal's conclusion about living standards in retirement was based on estimates provided by Ms. Munnell's center and data from the U.S. Census.

As with many baby boomers, 56-year-old Kreg Wittmayer once thought he was doing things right for a solid retirement. In his 20s, he began saving in his 401(k). He cashed it out after

a divorce at age 34. He built up the fund again, then cashed out five years later after losing his job, he says. “It was just too easy to get at.”

Mr. Wittmayer, of Des Moines, Iowa, says he now has a little over $100,000 saved for retirement. He owes $92,000 in parent loans for his daughters’ college costs, he says. He doesn’t know when, or whether, he will be able to retire, in direct contrast to his parents, a former firefighter and a former teacher who collect guaranteed pensions. “They never had to worry about saving for their retirement.”

This prospect is upending decades of progress in financial security among the aging. In the postwar era, for a while, fixed government and company pensions gave millions a guaranteed income on top of Social Security. An improving economy led to increased wages. Many Americans retired in better shape than their parents.

No more. Baby boomers were the first generation of Americans who were encouraged to manage their own retirement savings with 401(k)s and similar vehicles. Many made investing mistakes, didn’t sock enough away or waited too long to start.

Consider:

- Median personal income of Americans 55 through 69 leveled off after 2000 – for the first time since data became available in 1950 – according to an analysis of census data done for the Journal by the Urban Institute, a nonprofit research organization that has published research advocating for more government funding for long-term care. Median income for people 25 through 54 is below its 2000 peak, but has edged up in recent years, and younger workers have more time to adjust retirement-savings strategies.

- Households with 401(k) investments and at least one worker aged 55 through 64 had a median $135,000 in tax-advantaged retirement accounts as of 2016, according to the latest calculations from Boston College’s center. For a couple aged 62 and 65 who retire today, that would produce about $600 a month in annuity income for life, the center says.

- The percentage of families with any debt headed by people 55 or older has risen steadily for more than two decades, to 68 percent in 2016 from 54 percent in 1992, according to the Employee Benefit Research Institute, a nonpartisan public-policy research nonprofit.

- Americans aged 60 through 69 had about $2 trillion in debt in 2017, an 11 percent increase per capita from 2004, according to New York Federal Reserve data adjusted for inflation. They had $168 billion in outstanding car loans in 2017, 25 percent more per capita than in 2004. They had more than six times as much student-loan debt in 2017 than they did in 2004, Fed data show.

Shortfall generation

A combination of economic and demographic forces have left older Americans with bigger bills and less money to pay them.

Tempted by a prolonged era of low interest rates, boomers piled on debt to cope with rising home, health-care and college costs. Interest-rate declines hurt their security blankets. Lower earnings on bonds prompted many insurance firms to increase premiums for the

universal-life and long-term-care insurance many Americans bought to help pay expenses. Some public-sector workers are living with uncertainty as cash-strapped governments consider pension cuts.

Gains in life expectancy, combined with the soaring price of education, have left people in their 50s and 60s supporting adult children and older relatives. Some are likely to have to rely on professional caregivers, who are in short supply and are more expensive than informal arrangements of the past.

Then there are health-care costs. Since 1999, average worker contributions toward individual health-insurance premiums have risen 281 percent, to $1,213, during a period of 47 percent inflation, according to the nonprofit Kaiser Family Foundation. Nearly half of 1,518 workers surveyed last June by the Employee Benefit Research Institute said their health-care costs increased over the prior year, causing more than a quarter to cut back on retirement savings, and nearly half to reduce other savings.

Only a quarter of large firms offer retiree medical insurance, which typically covers retirees before they become eligible for Medicare, down from 40 percent in 1999, according to Kaiser. More money is coming out of people’s Social Security checks to pay for Medicare premiums and costs that the federal program doesn’t cover, Kaiser says. Medical spending accounted for 41 percent of the average $1,115 monthly Social Security benefit in 2013, and the percentage has likely risen since, it says.

Unexpected health costs have taken a toll on Sharon Kabel, 66, of East Aurora, N.Y. She already had trouble making ends meet after a yarn shop she owned for about 15 years failed in 2017. Then she suffered a heart attack this year.

In the store’s heyday, she employed three part-time workers. On Friday evenings, customers gathered to knit over cookies and wine. “I was like a bartender. People would come in and tell me about their children and their problems,” she says. Many customers eventually defected to the internet.

Her Social Security check is barely enough to cover the $800 monthly mortgage on the house she bought after a divorce settlement 11 years ago. She brings in another $800 a month cleaning houses, baby-sitting, walking dogs and selling yarn stored in her basement, she says. She grows vegetables and cans them for the winter.

She just started working three days a week at a garden center, a job she says will last until winter. “I live frugally. I don’t get my hair cut or go on vacations, and I drive a 12-year-old car.”

After a hospitalization, Ms. Kabel relied on friends and relatives for help. Some brought food and gift cards. Because Ms. Kabel skipped a Part D drug plan when she signed up for Medicare last year, one of her five children paid the $173 monthly cost of one prescription, she says. Another paid a $350 heating bill.

She has since secured drug coverage but owes $10,000 in credit-card debt. As a shop owner, she never earned enough to set up a tax-advantaged retirement plan.

Pension retreat

For many Americans facing a less secure retirement than their parents, the biggest reason is the shift from pensions to 401(k)-type plans.

A piano and organ maker in the 1880s launched one of the first employer-sponsored pension plans, and railroads, state and local governments, and others followed, according to the Social Security Administration. By the 1930s, about 15 percent of the labor force had employer pensions.

In 1935, federal officials created Social Security to offer a basic income. Pensions gained steam after World War II, and by the 1980s, 46 percent of private-sector workers were in a pension plan, according to the Employee Benefit Research Institute.

A seemingly small congressional action in 1978 set the stage for a pension retreat. Some companies had sought tax-deferred treatment of executives' bonuses and stock options to supplement their pension payouts, and Congress authorized the move. The tax-law change ushered in the 401(k), allowing employees to reduce their taxable income by placing pretax dollars in an account.

In the 1980s, union strength was ebbing and a recession pressured employers to reduce pension funding, says Teresa Ghilarducci, an economics professor at the New School. Many employers deployed the 401(k) to displace pensions.

Market declines in 2000 and 2008 revealed the perils of do-it-yourself retirements, as many 401(k) participants cut back on contributions, shifted funds out of stocks and never put them back in, or withdrew money to pay bills.

Arthur Smith Jr. , 61, is still feeling the impact. He consistently saved in 401(k)-type plans with various employers over the past 35 years, he says. His 401(k) got hit hard in the market crashes, he says, in large part because he invested in individual tech stocks.

"We were allowed to pick our own stocks and I jumped on some high-risk ones," he says. His 401(k) lost about half its value early in the 2000s and lost about half again in 2008, he says. "We didn't plan it right and lost a few times."

He and his wife, Connie, 56, withdrew about $25,000 from the account to buy a house last year when he was transferred to Houston from New York. The account is down to about $20,000, they say, and they haven't been able to sell their New York home, so they have two mortgages.

He has a pension from a decade working at a large corporation that he expects will generate about $500 a month. Combined with Social Security, he could earn about $3,000 a month in retirement income at age 66, which he says isn't enough. "My ideas of retiring are gone."

Others have been diligent savers but lacked knowledge to manage their money. "You don't have a lot of people to coach you how to invest," says Parline Boswell, 63, of New York City. She saved $5,000 during several years as a housekeeper in the 1990s while raising three children.

In 1998, she went to a bank for investing advice and ended up with a money-market account, which earned minimal income until 2007. She had become a hospital phlebotomist and in a conversation with colleagues learned about tax-advantaged investing.

She says she now has about $30,000 in a 403(b), a cousin to the 401(k). "That's not enough," she says. "I'm still working and trying to catch up." She also helps with expenses for her mother, aged near 100, and anticipates working until 70.

Recognizing the 401(k)'s shortcomings, Congress in 2006 enacted legislation making it easier for employers to enroll employees automatically and put them into funds that shift focus from stocks to bonds as they age. Almost a dozen states have authorized state-run retirement-savings programs to cover some of the estimated 55 million private-sector workers without workplace plans, according to AARP, the advocacy group for older Americans.

Those safeguards generally came too late for Americans now in their 60s, including Linda McCord, 69, of Denison, Texas. After 15 years as a manager at a consumer-lending firm, she took a lump-sum pension payment in the late 1980s following the sale of the business, she says. None of the finance or banking jobs she held after that offered a pension.

She wasn't concerned about her retirement because her husband had hundreds of thousands of dollars in a profit-sharing plan. She did have a 401(k) at a mortgage-origination firm in the early 2000s, but its balance was small when she left the workforce in 2003 due to health problems.

Her husband, Rusty, 63, followed in 2011 after a factory closing. They lived off her Social Security Disability Income for a couple of years and spent much of the money in his profit-sharing plan. They now live on her Social Security and his disability payments.

Money tight, Ms. McCord says she is selling parts of a collection of Star Trek action figures, dolls, yo-yos, lunchboxes and a book autographed by actor Leonard Nimoy.

She also struggles with another higher cost for her age group: life-insurance premiums. The annual premium on a policy she has owned since 1994 more than tripled over the past two years, she says, to about $2,000 this year. "I just want to scream bloody murder," she says. "It is hurting so bad."

She wants the $100,000 policy to pay for her funeral, to extinguish debts and to "hopefully have a little for our grandkids" left over.