A Portrait of Gen X Retirement Saving

Is this age group preparing adequately for the future?

Provided by The William Newby Agency

How would you guess Gen X is faring when it comes to retirement saving? Americans born between 1965 and 1980 are approaching what should be their peak income years, and many of them have actively contributed to workplace retirement plans, IRAs, and investment accounts. At the same time, Gen X is becoming the new "sandwich generation" – spending time and money to care for kids and aging parents at once.

Here is what we know about Gen X's degree and pattern of retirement saving, and its progress toward its goals.

Gen Xers began investing for retirement earlier than baby boomers did. According to research from Natixis Global Asset Management, the average Gen Xer started participating in a workplace retirement plan at age 27. That compares with age 31 for baby boomers (and age 23 for millennials).[1]

Still, this generation has some catching up to do. Would you like to guess the median amount of retirement savings for a Gen Xer? The answer is $69,000. That finding comes from a Transamerica Center for Retirement Studies survey of more than 4,000 workers, taken last summer. To put that in perspective, a 40-year-old who has $69,000 in retirement savings and defers $250 a month into a retirement account returning 6% annually will have $331,649 at age 60, and $481,331 at age 65.[2,3]

What percentage of salary do Gen Xers defer into employer-sponsored retirement plans each year? The TCRS says that the median deferral is 7%, which is not ideal, but, perhaps, adequate in light of possible employer matches.[3]

How much do Gen Xers think they will need to save for a comfortable retirement? The median guess in the TCRS survey was $500,000. That will not get a retiree that far, because a 4% annual withdrawal from a $500,000 retirement fund comes out to $20,000. Social Security benefits plus $20,000 may not even come close to covering household costs in 2035 or 2040, let alone medical ones. Fidelity projects that a 65-year-old married couple retiring today could need $260,000 just to cover health care expenses in retirement – long-term care not included. How much will today's 40-year-olds end up spending on medicines and medical procedures after they retire a generation from now?[3,4]

The TCRS survey found that a majority of Gen Xers had a retirement savings strategy in place. Unfortunately, 40% of those polled did not.[3]

Does this generation feel more "sandwiched" by financial pressures than the boomers? A comparative poll ought to focus on that question. Absent of one, we can only guess. A couple of troubling factoids can be found in the Transamerica data. This year, 37% of Gen Xers reported having less than $5,000 in emergency savings, and 30% said they had borrowed against their employer retirement accounts or taken hardship withdrawals or early withdrawals from them. These statistics seem to hint at severe, mid-life financial strains.[3]

Financially, Gen X has taken major steps to prepare for retirement. A problem remains, though – the same problem baby boomers have had to confront. Gen Xers must take another look at their retirement saving strategies as they enter their forties and fifties, because their perception of how much they need to save and invest may fall short of reality.

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