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## Could You Really Save Too Much For Retirement?

Eileen Ambrose -- Personal Finance

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[Eileen Ambrose](#)

After a New York Times article last month suggested we might be saving too much for retirement, it wasn't long before Bethesda financial planner Mary Malgoire started hearing from clients that "The New York Times says I don't have to save."

Malgoire, solidly in the prevailing camp that says Americans aren't preparing enough for retirement, wasn't happy. "It made me angry," she says of the article. "Americans generally are not saving enough. Baby boomers are overspending hand over fist."

Pinning down how much you need to save for retirement has never been an exact science. Too many unknowns. Retirement specialists developed rules of thumb as guidance, such as retirees need 70 percent to 85 percent of preretirement income. These common assumptions often are built into online calculators to help workers make projections.

Now, as the Times reported, a small group of economists is challenging the conventional wisdom. While this is heresy in many circles, supporters say it's healthy to have this debate. It has been so ingrained in us that we're all bad savers that it's become almost inconceivable that some have done a good job.

John Karl Scholz, an economics professor at the University of Wisconsin, found that more than 80 percent of those born between 1931 and 1941 saved enough to maintain their standard of living in retirement. And except for singles, the rest weren't that far off.

While Scholz didn't look at baby boomers and younger generations, he says there's no strong evidence to suggest the results would be much different.

And Laurence Kotlikoff, an economics professor at Boston University, says online calculators offered by investment companies are too simple and based on outdated assumptions. As a result, he says, the calculators tend to exaggerate how much we need to save.

"These are so primitive, they are really doing a danger to the public," he says.

Kotlikoff doesn't know if people save as much as the calculators recommend. But he says that investment companies have a financial interest in telling people to save and invest more.

(Kotlikoff admits his own conflict. He peddles a retirement software program for \$150 to \$200, ringing up about \$60,000 in sales since the Times article.)

T. Rowe Price Associates offers a free online retirement calculator. It was designed to be simple and quick because that's what Internet users like, but its calculations are highly sophisticated, says Christine Fahlund, Price's senior financial planner. "We firmly believe in the analysis we provide," she says.

Linthicum financial planner John Bacci agrees with the contrarian economists. He figures one in three of his clients could save less. Usually they have fat pensions and max out their 401(k) contributions each year.

It took so long for people to get the message to save for retirement that some are "bewildered" to hear that they've saved enough, Bacci says.

That's the case now with a couple in their early fifties. The two clients have \$1.4 million in various accounts and set aside \$50,000 a year in retirement plans. But instead of enjoying some of the fruits of their labor now, they're worried that they won't be able to afford to retire until 70, Bacci says. "They have this fear they will live in a refrigerator when they retire. That's their words," he says.

But some say the economists are doing a huge disservice to workers who will use this as an excuse not to save.

"This is the kind of message that people want to hear. This reinforces what they are already not doing," says Dallas Salisbury, president of the Employee Benefit Research Institute.

Salisbury noted that Americans again last year spent more than they earned. Investment firms actually understate how much we need to save because they overestimate investment returns, he says. And people aren't preparing for the likely prospect that Medicare and Social Security benefits will be cut.

"I'm depressing myself. I just read this budget," he says, referring to President Bush's outlook for Medicare and Social Security.

Mark Zandi, an economist with Moody's Economy.com, says both sides are right.

For those above the median household income of \$50,000, "their nest egg is large enough under most assumptions to maintain their standard of living in retirement," Zandi says. Some of these households have reduced their savings because the value of their assets has gone up so much, contributing to our negative savings rate, he says.

It's another story for those making less than \$50,000. "They are borrowing to finance spending beyond the income they have," Zandi says. "Their balance sheet is a mess. It's hard to argue they are saving too much."

So, are you saving enough? Too much? Just right?

Rules of thumb are handy, but use them as a starting point and adjust them to fit your situation.

For example, two couples may earn the same, but the one used to living on less will need a smaller nest egg to maintain their standard of living. Or you might need to save more than others if your relatives live well into their 90s and the smart money is on you breaking 100.

One observation: In my years of covering personal finance, I have never interviewed retirees who complained they saved too much, but I have heard regrets about not saving more.

Here's a suggestion for workers in their 50s or early 60s to gauge whether savings are on target.

Gather all the retirement income projections you receive from your employer and Social Security. Take your expected monthly income and try living on that for a month. Maybe two. (This experiment works best for older workers because retirement projections for them are more reliable.)

If you struggle to make ends meet or to have any fun, salt away more money. But if you're comfortable or have lots of money left over at the end of the month, that could signal that you can ease up a bit.

Granted, this exercise isn't perfect. You might have expenses today that you won't tomorrow, or the other way around.

But it will allow you to experience what it's like to live on a fixed income before you retire. And only you can tell whether you're happy with that.