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Saving for retirement a more daunting task than it used to be

Starting early is the key now that company pensions are thing of the past

By VELVET SPICER

With the number of people who are offered pensions declining drastically and the advent of more investment and savings options, including the growing interest in socially responsible investing, planning for retirement has changed drastically in recent decades.

Preparing for retirement is important, but with the financial landscape constantly in flux it can be difficult to chart a path forward and know when to invest, what to invest in and how to develop a plan in an ever changing climate. Financial planning and investing isn't just for the wealthy, and millennials and their parents are often shaky on what direction to take.

Elizabeth Thorley, president and CEO of Thorley Wealth Management, said saving for retirement largely comes down to options available to employers and options available to individuals. Employers offer compensation plans, such as a 401(k), 403(b) or other deferred investment vehicle, Thorley said, noting those plans have gained traction over the years and replaced traditional pensions.

Without a pension to fall back on, Sage Rutty Financial Advisor Zach Armstrong said, planning is even more important for millennials and the younger generation. Armstrong said if individuals aren't planning "many, many years in advance," it's unlikely they would be able to have the type of retirement they would like.

The landscape has changed dramatically as pensions have gone away, according to Christine Palmiere, Sage Rutty vice president and financial advisor. She said the majority of employees in the country once had pensions, but today only about 7 percent have one.

"Not having pensions requires newer workers, such as millennials, to save more to provide their own retirement funding," said CPA Bill Shaheen, president and CEO of Whitney & Co. "This has also disrupted the workforce somewhat as employees do not have the same loyalty as older workers used to, i.e., they don't stay at a job as long since they aren't working toward a pension."

In part because people are living much longer after retirement, Shaheen said investment strategies, models and theories have changed drastically in the 25 years he's been in the business.

When people typically only lived five to 10 years after retirement, preservation of capital was the primary objective, Shaheen said. People are now living 20 to 30 years in retirement, Shaheen said, and the current financial environment with low interest rates requires growth to provide individuals with a reasonable lifestyle to supplement Social Security, pensions and other income.

Another significant change in recent decades is that we're a much more mobile society, Thorley said, noting it's no longer typical for someone to work for a single employer for 30 or 40 years. Due to that change, she said plans that are portable have become more attractive.

"The real change — in kind of a more macro view — is that the individual is more responsible for their financial independence. That means their health care, their insurance and their retirement," Thorley said.

In addition to employer-sponsored plans, individuals also have the option to start their own Roth IRAs, traditional IRAs, simplified employee pension plans, and other plans that provide tax benefits, Thorley said. In addition to all those options, people can opt for what Thorley called "traditional investments," such as purchasing a commercial annuity and/or invest in stocks, bonds and mutual funds.

Social issues and individuals' political views have begun to drive their investment decisions, and there are more options available than ever before.

Health savings accounts can also be a tool for retirement planning, Thorley said, noting a lot of people don't see them as a way to save for retirement, but medical costs are often a major expense later in life.

With social issues at the forefront of a politically divided nation — and more investment options available than ever before — social issues and individuals' political views have begun to drive their investment decisions.

Socially responsible investing is an area Thorley calls ESG, for environmental, social and governance. She said the sector has seen significant growth in recent years and is no longer a niche market.

Armstrong said socially responsible investing started off largely as something popular among millennials, but the concept has trickled up a generation and a lot of baby boomers are now adopting similar policies.

"I think when you're in a tumultuous type of political climate a lot of people want to make sure if they have strong views on a particular subject that those can be reflected in their investment strategies," Armstrong said.

People have different ideas of what socially responsible means, Armstrong said, and each socially responsible portfolio is customized based on the individual's concerns. In the past, Armstrong said, socially responsible investing was something that advisors used to wait for clients to bring up, but that has changed now that the approach has gained popularity.

The trend has become "a lot more popular over the last five to 10 years," Armstrong said, noting somewhere in the range of 20-to-25 percent of investments are now made in what he called "socially responsible solutions."

Shaheen, however, cautioned there are many funds that call themselves "socially responsible," but a little digging would uncover many of their holdings don't meet the guidelines investors think they should.

It's never too early to start planning for retirement, Palmiere said, but most often people don't start to consider it until their 50s. Palmiere said it's often difficult for young people in their 30s and 40s to think about retirement when they're paying off student loans, purchasing homes and starting families.

Photo provided

Zach Armstrong, a Sage Rutty Financial Advisor, says socially responsible investing has become more common in the last 10 years.

Attempting to navigate the financial landscape alone is not impossible, but it can certainly be daunting and difficult.

"It is a full-time job, and there is a big difference between working with a professional that does this every day and the do-it-yourself canned programs online," Palmiere said. "They are helpful to get started, but they leave a lot out."

Thorley, who has been in the industry for more than 30 years, said navigating the changing landscape of retirement planning requires an open mind and a willingness to stay up to date with the most recent research.

On top of navigating the myriad changes in the industry, Thorley said investment returns have been significantly lower since the 1990s and 2000s. Due to those changes and increased savings and investment options, Thorley said what may have worked in previous decades isn't a pathway to current success.

"You have to be open to the idea that maybe what you've done in the past has to change," she said. "We're living in a fast-changing society. Nothing stays the same."

Matthew Reitz is a Rochester-area freelance writer.