A Sample from

James A. Bacon's

BOOMERGEDDON

How Runaway Deficits Will Bankrupt the Country and Ruin Retirement for Aging Baby Boomers — And What You Can Do About It

Contents

A Different Kind of Retirement Book

This is a different kind of retirement book. I don't peddle fantasies about how pleasant your retirement will be. I tell the truth. For the vast majority of the 78 million Baby Boomers fast approaching 65 — and very possibly for you — retirement will be a bitter pill.

To recycle a Boomer phrase from the 1960s, I "tell it like it is." When you wake up 20 years from now, shaking your head of thinning white hair (those of you who have hair), groping for your bifocals, and feeling all out of sorts because your "golden" years have become as shopworn as cheap costume jewelry, you'll know whom to blame. Just look in the mirror and take a long, hard look at the miscreant who failed to save enough money, despite abundant warnings that retirement would be very, very expensive. Then head to East Capitol Street, N.E., Washington, D.C., where you can accost any number of the 535 members of Congress who, through successive decisions more short-sighted than your own rheumy eyeballs, racked up mountains of debt, presided over the disintegration of the United States retirement safety net, and ruined whatever shot you had at living an old age where the words "happy," "carefree" and "solvent" applied.

If you are truly attached to the delusion that your retirement will be a period of freedom and fulfillment spent touring the great cities of Europe or just strolling along the beach hand-in-hand with your honey of 50 years, I would advise you to purchase a different book. You can find one of these actual titles on Amazon.com:

How to Retire Happy, Wild and Free: Retirement Wisdom You Won't Get from Your Financial Advisor

How to Love Your Retirement: Advice from Hundreds of Retirees

Boomergeddon

The Joy of Retirement: Finding Happiness, Freedom and the Life You Always Wanted

I wouldn't blame you for picking one of those fantasy titles in preference to this jeremiad. Reading other retirement books is like reading romance novels — they fuel the fires of the wishful imagination. By contrast, contemplating the hellish future in store for the United States, the world and, in all likelihood, you personally is about as fun as drilling your own tooth. Unfortunately, the other retirement books depict nothing resembling a reality you are likely to encounter.

The sad fact is, the retirement books being written today are based on the experience of the Silent Generation, today's seniors who were born between 1925 and 1945. Having come along at just the right time and in just the right numbers, the Silent Generation has set high expectations for care-free retirement. The Silent Ones reached adulthood when the United States economy was the world's strongest and employers could afford to offer generous pension plans. Establishing their spending and saving habits before credit cards and home-equity loans created a culture of indebtedness, they were restrained in their borrowing and disciplined in their saving. As a consequence, they built up hefty retirement nest eggs. Entering the real estate market when houses were cheap, they rode the decades-long rise in housing prices; many had retired, downsized to less expensive dwellings and cashed out their equity before the housing market crashed in the late 2000s. Finally, because the size of the Silent Generation is far smaller than the G.I. generation that preceded it and the Boomers who followed, politicians could raise Social Security and Medicare benefits without bankrupting the country — at least not while they were still in office.

The Silent Ones retired, on average, at age 62 with the longest life expectancies in U.S. history. With two decades of leisure to look forward to, they have both the time and the means to enjoy retirement.

Joy, freedom and happiness are things the Silent Generation can realistically aspire to in the final season of their lives.

The fate of the Baby Boomers will be very different. Born in the prosperous post-World War II era when American economic power knew no equal, Boomers never experienced sustained economic hardship, and they earned more money than any previous generation. But that blessing proved to be their undoing. They were young adults in the early 1980s when credit cards morphed from a perk of the elite into plastic for the masses. Around the same time, banks began marketing home equity loans aggressively, and car companies began peddling lease financing for automobiles. Never before had it been so easy to live in a McMansion, own a Beemer and spend a week sipping rum drinks in Mexico. The "democratization of credit" had a dark side: Many Boomers became addicted to debt. Money they could have been saving went to pay off the finance companies. Saving rates plummeted.

The decline in personal savings coincided with the slow disintegration of the fixed pension. Corporations sought to control the cost of their fringe benefits by reducing their exposure to expensive Defined Benefit plans, which guaranteed pension incomes and often required big infusions of cash to keep fully funded. Companies shifted market risks to their employees by offering 401(k) plans, to which companies made defined contributions but bore no further obligation. This new retirement vehicle created great wealth on paper as long as stock market prices rose. But when the market crashed, so did the Boomers' net worth. The Boomers were unfortunate in another way. While they, too, rode the rise in housing prices, very few had retired or downsized their dwellings when the housing market crashed. As a result, they lost much of the equity they had built up over their lifetimes.

Even before the Global Financial Crisis of 2007-2009, retirement experts were warning that Boomers were not saving enough to replace their pre-retirement earnings. The meltdown of the housing and stock markets only made a bad situation worse. In their paper, "The Wealth of the Baby Boom Cohorts after the Collapse of the Housing Bubble," David Rosnick and Dean Baker calculated that Boomers between the ages of 55 and 64 saw their median household net worth drop by half between 2004 and 2009. Younger Boomers, between 45 and 54, experienced a drop of 45 percent.

"This analysis indicates that the loss of wealth due to the collapse of the housing bubble and the plunge in the stock market will make the baby boomers far more dependent on Social Security and Medicare than prior generations," Rosnick and Baker wrote gravely. "The baby boom generation for the most part has insufficient time remaining before retirement to accumulate substantial savings."[1]

In consumer surveys conducted since the crash, Boomers have expressed remorse for all the money they squandered and have evinced an intention to do all the right things: Pay down debt, save more money and invest more. But that will be easier said than done — and not just because many Boomers have been laid off or seen their work hours cut during the recession. As the first true "sandwich" generation, Boomers are usually the chief bread winners in their extended families, and they have taken on responsibility both for aging parents, who increasingly need help living independently, and for adult children who, due to the educational demands of the knowledge economy, delay entering the workforce.

Thirty-one percent of the Boomers responding to a 2009 survey by consulting firm Age Wave and polling firm Harris Interactive said they were worried about supporting aging parents. That support takes two forms: informal care-giving assistance and paying for expenses out of pocket. Unpaid caregivers provided $350 billion worth of care to friends and relatives in 2006, the American Association of Homes and Aging has estimated. That is the market-equivalent value of the care — it does not include the lost wages of the caregivers, mostly women, who either quit work or cut back their hours. Among those who find themselves in a care-giving situation, many supplement their time with money. In a 2007 study, Donna Wagner, director of the Center for Productive Aging at Towson State University, conducted in-depth surveys of 1,000 care-givers. Survey takers reported that they spent $5,500 each year on average for expenses such as food, medical equipment, legal fees and modifications to the home.[2] Typically, that burden falls upon less affluent care-givers. Well-off Boomers tend to have well-off parents who don't need the assistance.

At the other end of the generational spectrum, younger Americans are attending college in greater numbers than ever before. Three out of four respondents to a 2009 Pew Research Center survey agreed that college is necessary to "get ahead" in life—that compared to only two out of four a single generation previously, in 1978.[3]

Over those same three decades, college has become increasingly expensive. Tuitions have consistently outpaced incomes. As a result, students and their families have been forced to seek financial assistance. In the 2008-2009 academic year, student borrowing surged an incredible 23 percent in a single year. Two-thirds of all students today end up borrowing money, and they graduate with an average debt load exceeding $23,000. Those numbers are up from 58 percent of students borrowing to pay for college a dozen years earlier and an average amount borrowed per student of less than $13,200.[4]

Many debt-laden graduates, the so-called "boomerang children," go home to live with their Boomer moms and dads. Even when they don't, parents lend a helping hand. A survey last year by VibrantNation.com, a website forum for 50+ women, found that 29 percent of its readers were helping pay for their children's rent, 26 percent for everyday expenses and 17 percent for health care and educational costs. And where does that money come from? For the most part, parents cut back on their own consumption. But one-third of them tapped funds they'd set aside for future needs such as retirement.

"This is a generation of helicopter moms and dads who value their friendships with their children and who [have] had a hard time letting go," observed Carol Osborne, senior strategist for VibrantNation.com.

"The jury is still out whether this is a temporary adjustment to tough economic times, or a re-jiggering of multigenerational family models that will have staying power over the long run."[5]

In all likelihood, Boomer subsidies for grown children will continue at high levels, as there is no sign that the escalation in college tuitions is abating. With only a few years left to prepare, Boomers are awakening to the fact that they have saved insufficiently to fund the fantasy retirements they dreamed of, and they have too many family obligations to save much money even if they did have more time.

Aside from buying lottery tickets and praying for a miracle, most Boomers see only one practicable solution. Reversing a century-long trend in which each generation retired earlier than the preceding one, most Boomers have concluded they will have to work several years longer than their parents did. A survey by Age Wave and Harris Interactive found that Boomers expect to work 3.9 more years on average than they had planned.[6] The findings have been replicated by other consumer research firms.

Alas, even working longer may not ameliorate the predicament in which Boomers find themselves. Alicia Munnell and her colleagues at the Center for Retirement Research at Boston College painstakingly compile and update something they call the National Retirement Risk Index, which measures the risk that Americans will be financially "unprepared" for retirement. By "unprepared," the researchers mean the inability to maintain 70 percent of their pre-retirement income after adjusting for the expected increase in health care expenses and the cost of insuring for long-term care. Even if they all work until 65 — about three years past the average retirement age today — and tap the equity in their houses, 52 percent of older Boomers, 64 percent of younger Boomers and 71 percent of Generation Xers are at risk of falling short.[7]

Boomers are concerned about the cost of health care and long-term care, and rightfully so. One in three Americans requires long-term care at some point in their lives. Quality nursing homes can cost up to

$77,000 a year. Less than 15 percent of the elderly population could withstand such a drain and still maintain their living standards. For households in the bottom third of wealth distribution, Munnell concludes, the "most reasonable strategy" would be to rely upon Medicaid to cover expenses should long-term care be required. Although households in the middle third might benefit from long-term care insurance, many may find the price tag too steep — $7,300 a year at age 75 — suggesting that an optimal strategy would be to take their chances and fall back on Medicaid if they exhaust their resources.

Munnell is assuming, of course, that Social Security, Medicare and Medicaid will remain intact, that in spite of spiraling costs for health care, the U.S. government will continue to pay out benefits more or less on the same terms as today. What happens if it can't? What happens if chronic deficits, rising interest rates, compounding payments on the fast-rising national debt and dependence upon foreign lenders force the U.S. into default? What happens if no one will lend to Uncle Sam anymore?

What would Baby Boomers' retirement prospects look like if their Social Security, Medicare and Medicaid benefits were arbitrarily slashed by 25 percent or more as the U.S. government desperately sought to preserve its solvency? How "happy, wild and free" would anybody's retirement look then?

Those are the questions that I will address in this book. In the first five chapters, I will try to persuade you that the nightmare scenario of government insolvency isn't just a paranoid delusion of fiscal conservatives, but a near inevitability given the myopic, corrupt and gridlocked political culture of Washington, D.C. I also will try to convince you that the default of the federal government and the inability to support spending through borrowing — an event that I refer to as "Boomergeddon" — is not merely a legacy that we Boomers bequeath our children and grandchildren, it is an affliction we foist upon ourselves in our lifetimes, most likely when we are retired, exhausting our savings, feeling weak and frail, and reliant upon the government social safety net for our financial security.

In chapters six and seven, I will explore what Boomergeddon means for Americans: first the collapse of the American sphere of influence around the world, retrenchment of world trade and the spread of war and anarchy; and second, the radical truncation of the American welfare state, including the Social Security, Medicare and Medicaid that you'll be depending upon to help finance your old age.

In the final two chapters, I will explore survival strategies. I will outline what you can do personally to brace for Boomergeddon and to adapt to the fiscal shock of a federal government in default. And, finally, so as not to leave you in utter despair, I will lay out five strategies for salvaging the nation's fiscal health (and, thereby, your retirement) should the American people in their righteous wrath and indignation wrest power back from the big corporations, the big unions, the special interests and the political class of lobbyists and fixers in Washington, D.C.

If you're looking for smiley-face advice on a blissful retirement, this isn't it. If, in the immortal words of Col. Nathan R. Jessep in the movie, "A Few Good Men," "You can't handle the truth," then stick your ostrich head back into your hole. But if you are of a combative frame of mind and want to know where the country is heading and how to survive the greatest crisis in the American system of government since the Great Depression — possibly since the Civil War — then read on.