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A "My Plate" Retirement Planning Strategy

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How much should you save for retirement?

That's the question I asked blog readers and Facebook friends, specifying that the "you" could be taken either as referring to their own personal situation or the recommendation they believed was correct for Americans in general. The answers were along the lines of "aim for $1 million" or "try to get 25 times your annual pay." They cited their own savings percentages (including employer matches) as 0%, 14%, 16% and 30%, and a mandatory 9.5% from the Australian in the group. (Yes, it's a small sample size.)

I looked online. A recent Bloomberg article[1] seemed promising but ended up giving seven guidelines, among them save 12% to 15% of pay, follow your employer's match and escalation defaults, and save the maximum deductible amount. The Center for Retirement Research[2] calculates savings percentages ranging from 4%, for a full career starting at age 25 and assuming retirement at age 70, to 24%, assuming saving begins at age 35 and retirement at age 62, assuming a median income and a 70% replacement ratio. But even these percentages don't get at the real-world situation for individual savers. Some will have large pay increases during their working lifetime; others are in occupations where pay increases little over time. Some will have bouts of unemployment. Some will have children. They will need to ramp up their savings after the children leave home or become accustomed to a lower standard of living than the childless with the same income level so as to be able to move to a lower replacement rate without feeling a pinch. Due to the progressive nature of Social Security benefits, it's neither possible to specify an accurate savings rate that's appropriate across all income levels nor easy to provide a rule of thumb that takes it into account.

What do we conclude from this? That nobody knows the answer. Or, at least, that there is nothing even close to a universally accepted standard we all know to follow.

Which means, for most Americans, the only answer to the question of how much is "More than you're saving now."

For Many, a New Challenge

It strikes me that the American worker is being asked to do something rather unprecedented, in being called on to save for his or her own retirement to such a degree. Of course, for many workers, especially the self-employed, those working at small businesses and those who have experienced many job moves, this has always been the norm. But the fact remains, in 1979, 38% of private-sector American workers participated in defined benefit plans. In 2014, the corresponding figure was 13%.[3] Although access to defined contribution plans has increased, so that, in total, 47% of private-sector workers have access to some sort of retirement plan, nearly the same rate as in 1979 (45%), in nearly all such plans, employer contributions are entirely or partially contingent on employee contributions.[4]

It's all the more difficult for younger workers to identify an appropriate savings strategy. Do you wait until your credit cards are paid off? Focus on your student loans? Save for a down payment? More and more young adults don't even think of themselves as "real adults" in the first place, as evidenced by the rise in the term "adulting," used by millennials to express their own self-awareness at how late they are to the game of independent living.

And this is outside the international norm as well. To be sure, many Western countries have simply historically

1 Ben Steverman, "How Much Should You Save for Retirement?" *Personal Finance, Bloomberg*, June 14, 2017, *https://www.bloomberg.com/news/articles/2017-06-14/how-much-should-you-save-for-retirement*.

2 Alicia H. Munnell, Anthony Webb and Wenliang Hou, "How Much Should People Save?" Center for Retirement Research at Boston College working paper no. 14011 (July 2014), *http://crr.bc.edu/wp-content/uploads/2014/07/IB_14-111.pdf*.

3 Employee Benefit Research Institute, "FAQs About Benefits—Retirement Issues," accessed Feb. 27, 2018, *https://www.ebri.org/publications/benfaq/index.cfm?fa=retfaq14*.

4 Ibid.

had high enough state benefits, or national collectively bargained benefits, as to not require retirement savings to nearly the same degree as in the United States. But consider that, among the countries nearest the United States in terms of culture and economy, Australia, in 1991, introduced the Superannuation Guarantee, mandatory 401(k) savings. Hong Kong introduced the Mandatory Provident Fund in 1995. The United Kingdom is in the process of phasing in a nationwide autoenrollment retirement savings plan, the National Employment Savings Trust, or NEST. And as I write, the Irish government is likewise preparing a proposal for a similar system.

In the United States, however, even new statewide efforts such as that of Oregon lack contribution mandates and are modest in their ambitions. We necessarily have a much more difficult task, that of making retirement savings the norm, without any such mandates, and against all the pressures Americans face to consume in the here-and-now. It’s an eat-your-vegetables, do-your-exercises sort of situation, except that, rather than being able to see the results of one’s efforts in the near term, in terms of better-fitting clothing and better stamina in physical activities, the fruits of one’s labors, or forgone consumption, are only visible once in retirement, many years removed.

A “My Plate” Approach

Consider the eat-your-vegetables dictum in another fashion. In my own childhood, the four food groups were how we learned about healthy eating. The food pyramid, released in 1992, was meant to illustrate that different types of food should be consumed in different amounts. In 2005, the government promulgated “MyPyramid,” which created color-coded slices of the pyramid dedicated to different groupings of food, with the exhortation to visit mypyramid.gov for individualized guidance. Perhaps in response to poor reception of this graphic, the current “My Plate” guideline is back to a more straightforward pie chart-like presentation, with fruits and vegetables taking up half the plate.

We need a My Plate plan for retirement—that is, a very simple set of standard guidelines provided with consistency across the spectrum of retirement advising, from individual financial planners to employer communications to financial advice columnists.

It’s true these guidelines will not be “right“ for anyone. There are variables that are simply unknown. What will average market returns look like? Will a health crisis or late-career job loss result in earlier-than-planned retirement? There are other variables that are predictable and, in principle, model-able for an individual. At what age did you enter the job market? What type of pay increases can you expect, given your occupation? Given your expected future salary progression and assuming benefit levels remain unchanged, what level of Social Security can you expect at retirement? In a perfect world, as wage-earners, we’d all access modelers to provide us customized guidance, in the same manner as mypyramid.gov was intended for us to customize our food intake based on weight and activity level.

But it is probably too much to ask of the average American to go online, find a modeler, research reasonable assumptions for your specific conditions, calculate your required savings percentage and review it on a regular basis to track your progress. It is a lot more difficult to internalize than, say, save 15% of pay for retirement, as a single norm that’s repeated starting in high school with your personal finance class, on through the advice from your workplace and newspaper columnists, and chats with family or dear old dad giving you guidance.

That being said, I would fine-tune this in one respect. It really doesn’t make sense for someone who’s earning a bare minimum wage at a part-time job to be told to save for retirement, but dictums such as “wait until you’re established in your career” don’t offer a tangible starting point. Instead, a better message, which also builds in a recognition of the impact of Social Security’s progressivity, might be save 15% of pay beyond the first $15,000—that is, once you get a job that pays more than $15,000 per year, save 15% of the excess, or, rounded, save 15% of your earnings above $300 per week. Perhaps the message should be save 15% over $15,000—unless your own research tells you otherwise. These figures are just placeholders because the key is agreement on a single standard percentage; the savings threshold would need to be re-set periodically due to inflation.

Getting From Here to There

How do we get from here to there? There are a large number of expert groups providing advice, and many

of them benefit from complexity—a financial planner, for example, might not be keen on sharing a message of 15% over $15,000 because it diminishes the role of those professionals. Others, such as a professional group of actuaries who pride themselves on accuracy and precision, would struggle with the idea of dispensing “wrong” information. Interestingly, though, the popular adviser on budgeting and family finances Dave Ramsey advocates exactly this simpler-is-better approach and tells his readers[5] to save 15% in a combination of employer-provided 401(k)s and Roth IRAs.

And, to be sure, for many, if not most, Americans, saving 15% of income (or even 10% or any other such percentage) is a much greater challenge than simply internalizing this figure. Some have acquired spending habits that must be broken; others struggle to maintain even a basic standard of living given their income level and nondiscretionary expenses. These are issues that the simple counsel to “make your coffee at home instead of buying it at Starbucks” won’t remedy. In fact, employers are recognizing the fact that, for their employees to boost their retirement savings, they need help with their day-to-day financial management.

Employers are beginning to offer tools to provide this help, such as live or online seminars or access to financial health websites.

But, while acknowledging that retirement experts are not necessarily the best dispensers of advice on family budgeting, or prescribers of economic and social policy more generically, we can at least work together to set out a consensus on a goal.

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5 “The Truth About Retirement,” blog, daveramsey.com, accessed Feb. 27, 2018, *https://www.daveramsey.com/blog/the-truth-about-retirement*.