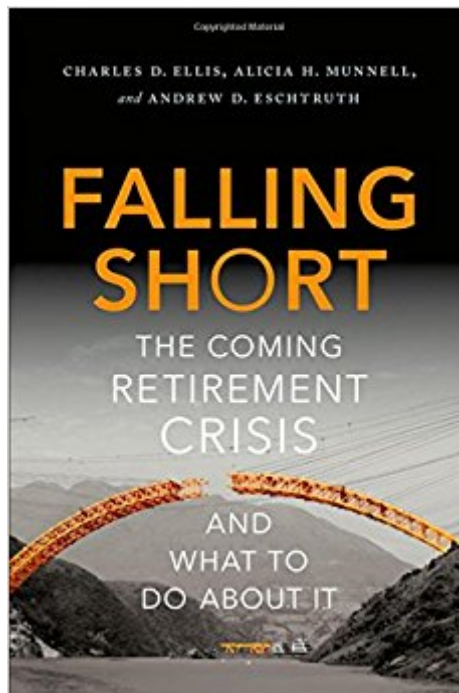




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# Falling Short: The Coming Retirement Crisis And What To Do About It



## Synopsis

The United States faces a serious retirement challenge. Many of today's workers will lack the resources to retire at traditional ages and maintain their standard of living in retirement. Solving the problem is a major challenge in today's environment in which risk and responsibility have shifted from government and employers to individuals. For this reason, Charles D. Ellis, Alicia H. Munnell, and Andrew D. Eschtruth have written this concise guide for anyone concerned about their own - and the nation's - retirement security. *Falling Short* is grounded in sound research yet written in a highly accessible style. The authors provide a vivid picture of the retirement crisis in America. They offer the necessary context for understanding the nature and size of the retirement income shortfall, which is caused by both increasing income needs-due to longer lifespans and rising health costs-and decreasing support from Social Security and employer-sponsored pension plans. The solutions are to work longer and save more by building on the existing retirement system. To work longer, individuals should plan to stay in the labor force until age 70 if possible. To save more, policymakers should shore up Social Security's long-term finances; make all 401(k) plans fully automatic, with workers allowed to opt out; and ensure that everyone has access to a retirement savings plan. Individuals should also recognize that their house is a source of saving, which they can tap in retirement through downsizing or a reverse mortgage.

## Book Information

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## Customer Reviews

"In the post-defined benefit era, future retirees must take an active role and exercise considerable

self-control to ensure a comfortable retirement. Falling Short furnishes both the motivation and the know-how to help them succeed." -- Financial Analysts Journal

"Falling Short points the way to solving America's retirement challenge simply by optimizing our existing systems. Make Social Security solvent, make workplace savings plans fully automatic, lift savings rates and extend savings plans to all workers. What are we waiting for? Let's do it." Robert L. Reynolds, President and CEO of Putnam Investments

"I loved this book! It is short, punchy, and highly readable. It provides a full analysis of the grim status of our nation's retirement savings plans and offers solutions that are realistic and long overdue. I recommend it to all those concerned about America's retirement problems, including their own." John C. Bogle, Founder and Former Chairman and CEO of Vanguard Group

"Illuminating the retirement challenge by combining Munnell and Eschtruth's keen sense of the academic research with the horse sense of famed investment advisor Ellis is a great idea. Read Falling Short; it's brimming with sound advice. Then pass it along to your brothers and sisters." Alan S. Blinder, Professor of Economics at Princeton University and author of *After the Music Stopped*

"Many baby boomers are woefully unprepared for retirement. This book proposes both useful actions that individuals can take and institutional changes to 401(k)s and Social Security. This gem of a book makes an important contribution to alleviate a pressing social problem." Burton Malkiel, Professor Emeritus at Princeton University and author of *A Random Walk Down Wall Street*

"America's retirement savings system has failed. Too many people are retiring with too little to live on. This excellent book nails the changes and incentives needed to restore an aging generation to fiscal health. Every voter and policymaker should read it." Jane Bryant Quinn, author of *Making the Most of Your Money NOW*

Charles D. Ellis was for three decades managing partner of Greenwich Associates, an international business strategy consulting firm. He has taught advanced courses on investing at the business schools of both Harvard and Yale and has served on the governing boards of Yale University, Harvard Business School, Exeter, NYU Stern, and the Robert Wood Johnson Foundation. He currently chairs the Whitehead Institute. Ellis is the author of 16 books, including the bestselling *Winning the Loser's Game*.

Alicia H. Munnell is the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management. She also serves as the director of the Center for Retirement Research at Boston College. Before joining Boston College in 1997, Munnell was a member of the President's Council of Economic Advisers and assistant secretary of the Treasury for economic policy. Previously, she spent 20 years at the Federal Reserve Bank of Boston. Munnell has published widely, with a particular focus on retirement security. Andrew D.

Eschtruth is Associate Director for External Relations at the Center for Retirement Research at Boston College. He directs the Center's communication activities and manages relationships with the government, foundation, and corporate communities. Previously, Eschtruth was a senior analyst with the U.S. Government Accountability Office specializing in federal fiscal policy and social insurance programs.

There is a lot of redundancy in this short five-chapter book. The reason for the redundancy is that most Americans don't really know even the financial basics of retirement. Too many people are going to find that they don't have enough savings and pension to retire. According to the three authors the solutions to the coming retirement disaster are: Work longer, fix Social Security, save more through 401(k)s and consider using home equity or taking a reverse mortgage. The most important points in the entire book are that people aren't saving enough, don't start saving early enough and that people shouldn't start taking their social security until age 70. A person who waits until age 70 to start taking their social security will get 79% more per month than a person who starts receiving their benefits at age 62. The authors feel that letting retirees in good health take their benefits at age 62 should not be allowed because the benefits won't be high enough for a satisfactory retirement life style. The one point the book didn't discuss in detail was how long a retiree needs to live in order to make up for not taking benefits from age 62. Those eight years from 62 to 70 represent a lot of lost benefits to be recouped by people who don't start taking their social security until age 70. If a person dies before age 70, they lose out completely. Most folks need to live into their mid-80's to make up for the payments they forego by waiting until age 70. That's fine if they live into their mid-80s or longer. But the designers of the Social Security safety net originally picked age 65 for it to begin because most people were dead by that age. They weren't worried about the trust fund running out of money and probably hoped to use the excess funds paid into SS for other government uses. The authors include a lot of depressing research about how unprepared most folks are to retire. Too many people have saved almost nothing and don't own their own homes, which is the average American's biggest asset and savings vehicle. This is an important book for people to read as soon as they can.

This easy-to-read and compelling book deals with one of the era's most important issues, both to each of us individually and to the nation as a whole. The book demonstrates convincingly that the financial resources being committed by individuals, businesses, and governments to retirement vehicles such as Social Security, pensions, 401ks, and IRAs are inadequate and that current and

coming generations face quite reduced circumstances when they stop working. The authors present a concise and impressive, and perhaps unique, history of the national and cultural developments and decisions that led to this unhappy situation. The book also offers a very helpful tool for thinking about retirement strategy. It unsentimentally discusses the evident but difficult to apply approaches to "fixing" the daunting shortfalls faced by individuals, enterprises, and governments. "Falling Short" is a must read regardless of whether your political views focus on the community safety net or on individual responsibility. Either way, the authors show us, the outlook is for a discontented aging population burdening younger generations, unless serious changes are made at both public and private levels.

The American retirement system is broken. Too many people with little or no savings will depend entirely on Social Security to sustain them during retirement, but the result will fall far short of expectations. To understand the problem and what steps we can take to address it, you couldn't find a better, more cogent discussion than that found in this marvelous little book. All people of working age stand to benefit, not just near retirees. The authors have effectively combined their complementary skills to produce an extremely well-written narrative that is accessible to everyone. Charles Ellis is a nationally recognized investment authority, while Alicia Munnell is an acclaimed retirement authority at the highly regarded Boston College Center for Retirement Research. It would be difficult to find two people more qualified to address this subject. The authors quickly dispel the notion that the Baby Boomer generation is a "pig in the python" and that the pressures on the Social Security system as it currently exists will be dispelled once the Boomers leave the scene. Unfortunately, our Social Security system has more enduring problems. Consider, (1) Longevity is increasing and we will be retired for many more years than previous generations, thus adding to the cost of retirement. (2) Health care costs are high and rising faster than the inflation rate. Medicare premiums deducted from Social Security payments reduce the amount available for living expenses. Climbing out-of-pocket health care costs also eat into income. (3) Traditional pensions are disappearing from private sector employment which forces us to become more dependent than ever on our 401(k) plans to supplement Social Security. However, our record of adequately funding and managing our 401(k) plans is dismal. (4) Interest rates at historic lows are making it difficult to earn a reasonable return from safe assets. (5) We are woefully unprepared to properly withdrawal funds from our retirement savings so that we don't either run out of money or live unnecessarily ascetic lives. Social Security is replacing a declining amount of our pre-retirement income, and we will

increasingly rely on our retirement savings to make up the deficit. But our savings rate is pitifully low. According to the authors, "For households nearing retirement with a 401(k), the typical total is only \$111,000 - including any assets that were rolled over into IRAs. That \$111,000 ... means less than \$400 per month ... to supplement Social Security benefits that cover a shrinking share of our pre-retirement income." The inevitable result is a declining standard of living unless we make some changes. One new reality is the need to work longer, i.e., 70 is the new 65. Increased longevity makes this a viable option. Extra time in the work force will allow us to earn higher Social Security benefits and enable our savings to grow further. The authors propose that participation in 401(k) plans become mandatory since too many workers fail to sign up. Except for severe financial hardship, we can no longer afford to ignore retirement saving. The book discusses at length what steps we can take to address the retirement crisis both as individuals and as a nation. Without a doubt, this will be a widely discussed topic in the years to come and it behooves us to be well-informed. I would also argue that we should take it upon ourselves to teach our children and grandchildren the virtues of saving and wise investing to secure a better future for them. You cannot do better to prepare yourself than by reading this book.

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