MERITAS ADVISORS

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Insights

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How Americans are saving for retirement

Recent estimates indicate that the Social Security Trust Fund will run out of its surplus in 2034. Once this occurs, program payouts are expected to be worth only about 77 percent of current benefits. Unfortunately, one-third of retirees rely on social security payments for at least 90 percent of their retirement income. With social security payouts likely headed for significant reduction, contributing to self-directed retirement accounts is more crucial than ever. Just how are Americans doing when it comes to saving for their future?

How America saves

According to a TransAmerica Center survey, the typical American expects to retire at 67 but actually ends up retiring five years earlier than anticipated. A shortened career means less time for earning and saving, as well as more time spent withdrawing from accounts. This further emphasizes how saving for retirement is even more crucial than some Americans might assume.

To understand how America saves for retirement, let's examine savings patterns by various cohorts. The following information is taken from "The State of American Retirement" report by the Economic Policy Institute.

Age	Average saved for retirement	Median saved for retirement
56-61	$163,577	$17,000
50-55	$124,831	$8,000
44-49	$81,347	$6,200
38-43	$62,270	$4,200
32-37	$31,644	$480

Education level (families age 32-61, with retirement savings)	Median saved for retirement
College degree or more	$95,000
Some college	$46,900
High school diploma or GED	$30,000
No high school diploma or GED	$14,700

Marital status (age 32-61, with retirement savings)	Median saved for retirement
Married or living with partner	$78,000
Single men	$34,000
Single women	$30,000

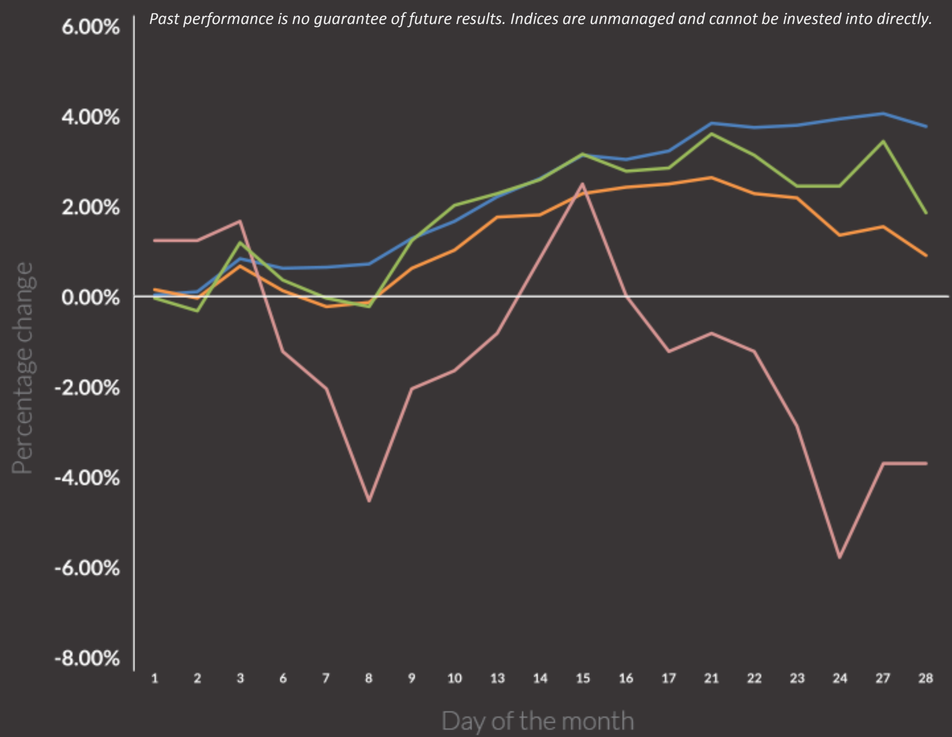
the market at a glance
FEBRUARY

U.S. Large Cap
(S&P 500)
2,363.64 (3.72%) ▲

U.S. Mid/Small
(Russell 2000)
1,386.68 (1.83 %) ▲

International Large
(NYSE International 100)
5,073.47 (0.89%) ▲

U.S. Treasuries
(U.S. 10-Year Treasury Yield Rate)
2.36 (-3.67%) ▼



The market in action

- A study by Ipsos surveyed respondents from various countries on whether they thought their country was headed in the right direction in 2017. Of the countries represented, Peru had the highest level of optimism; France had the lowest.
- Total household debt in the United States climbed to its highest level in nearly a decade. The New York Fed projects that household debt will reach a new all-time high in 2017.
- The New York Fed released a report that the average amount of student debt per household has doubled since 2008, which was by far the largest such relative increase among all forms of household debt.
- China's foreign exchange reserves fell below $3 trillion in January, marking the first such time this has happened in about six years. Not only did this outpace estimates by economists polled by Reuters, but it follows a $320 billion decrease in 2016 and a $513 billion dollar drop in 2015.
- A report from Fidelity indicated that retirement savers are doing nearly better than ever. The average Fidelity IRA is worth about $93,700 while the average Fidelity 401(k) has a balance of $92,500. Additionally, the percentage of 401(k) savers has reached a seven-year high.
- According to Business Insider, an estimated 10 million self-driving cars will be on the road by 2020.
- In a report released by Reuters, unemployment claims in early February hit a 43-year low. This further demonstrates the job market essentially maintaining full-employment, as the unemployment rate has remained below 5 percent since May 2016.
- First Trust recently gathered data on the historical performance of bear and bull markets. Since 1926, the average bull market lasted nearly 9 years, resulting in a 490 percent total return. Over the same time frame, bear markets last an average of 1.3 years and suffer a cumulative 41 percent loss. It's important to note, however, that past performance does not guarantee future results.

Rate Hike

On March 15, the U.S. Federal Reserve Board's Open Market Committee raised the Fed Funds rate from 0.75% to 1.00%—the second rate hike in three months. So what should you do with your investment portfolio in light of this change?

Nothing.

Why? First of all, the rate change was very minor, considering all the press coverage it received. In the mid-2000s, Fed Chairman Alan Greenspan raised interest rates 17 times in quarter-point jumps, finally taking Fed Funds to a 5% rate. This time around, the economists at America's central bank are behaving extremely cautiously.

Second, you may read that any raise in interest rates is depressing for stocks, because borrowing becomes incrementally more expensive for American corporations and consumers. But bigger picture, this move is actually a validation of the country's economic progress in our long slow climb out of The Great Recession.

By raising rates, the Fed is indicating that it believes the companies that make up our economy are healthy enough to survive and prosper under slightly higher interest rates. The markets apparently felt like this was a positive sign, that the economy no longer needs to be nursed back to health. The widely-followed S&P 500 stock index rose a full percentage point on the news.

Third, and more good news, the Fed has now moved into a mode where it is fighting inflation, rather than trying desperately to stimulate it. The worst thing that could happen to the economy is a bout of deflation, where prices fall and there are no policy remedies to fix the problem. In the discussion accompanying the rate rise (the infamous Fed "minutes") the Board of Governors expressed concern that inflation might rise above their "target" of 2%, hence the tightening. If you read the message between the lines, they seem to feel that the threat of deflation is over. Finally, the rate hike was expected, and already built into the price of stocks. And more still are expected: at least two and possibly three 0.25% rises before the end of the year. But the Fed also signaled that if there is any sign of the economy backtracking, those plans will be scrapped. The rate rises are anything but reckless.

So what WILL be the effect of the rate hike? Borrowing to buy a car or a house will be slightly more expensive going forward than it was prior to March 15. The average thirty year fixed mortgage rate this time last year was 3.68%; it's now up to 4.21%.

Most credit cards charge variable rates of interest, which likely means a 0.25 percent rise in the rates you pay on any balances you carry from month to month.

And private student loans with variable interest rates will likely increase each time the Fed raises rates. Balances on Stafford, Graduate Plus or Parent Plus loans will remain at their current interest rates, but the rates on new loans will probably rise.

If your portfolio is well-diversified, there's not much more you can do to ride out a (slowly) rising-rate environment. Ignore the headlines and celebrate the fact that even the most cautious economists in Washington are finally admitting that the economy is on solid ground.

-Bob Veres

Sources:

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