Millennials: It Pays to Rethink the Boomer Approach to Retirement

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To paraphrase one of the great musings of the American businessman and investor Charlie Munger, you don't have to touch an electric fence to learn not to do it. In other words, it's better to learn through observation and the mistakes of others than through making the mistakes yourself.

For this reason, millennials should take note of the situation many baby boomers find themselves in today as they near retirement age.

Lately, headlines about America's impending retirement crisis are becoming more frequent, and they revolve around the fact that on average, the baby boomer generation is significantly under-saved for retirement.

Fortunately for them, it looks that they are likely to continue to receive at least some level of Social Security benefits, at least for now. Some also have pensions. This will cushion the retirement blow.

Millennials may not be so lucky. Pensions are almost completely a thing of the past. Social Security is in a tenuous position, and while it may work out fine, it's not wise for us to count on it.

For us millennials, funding retirement falls squarely on our shoulders, and thankfully, it's not too late to reframe the way we think about retirement so we can avoid making the same mistakes that our parents' generation did.

So, what does this mean for us? Here are a few tips to ensure millennials position themselves well for retirement despite these obstacles.

Depend on yourself, mostly

Many members of the baby boomer generation have spent their entire working lives counting on a future stream of income from Social Security, a pension, or both, starting around age 65 and continuing for the rest of their lives. But when the government and pension providers created these retirement benefit programs, they didn't count on people spending 30-plus years in retirement, which is becoming more and more common.

For this reason and others, these types of programs provide less funding over time.

So how will our retirement be funded? By us — that's pretty much it. That means we should be saving at least 15-20% of our incomes now. If you have debt, paying that down counts toward your 15-20% savings goal.

If you have an employer-sponsored retirement plan, such as a 401(k), contributing is a no-brainer. It will reduce your tax bill and if you have an employer match, that's free money. If you don't have an employer-sponsored retirement plan, contribute to a traditional or Roth IRA.

Every time you get a raise, save at least half. You will get used to living on less than you make and you won't miss the money that you "never had."

Plan to work longer

The concept of 65 being retirement age seems kind of arbitrary now that many of us will live into our 90s (and increasingly 100s). A 30-plus year retirement seems a little extreme and would be a financial disaster for most Americans.

So let's throw out this idea of a retirement age. Rather, as my father says, we should aim to "work longer, live more." Instead of saving all of your travel and leisure goals for retirement, start pursuing them now and plan to work longer, at least part-time. It doesn't even have to be in your profession — any stream of earned income will give you much more financial security than none at all.

Accurately forecast retirement spending

Many people assume that they will spend less during their retirement years than they did when they were working. In reality, this is rarely the case. In fact, many people spend even more during their early retirement years on travel, dining out and leisure activities. Many baby boomers who have been saving for decades are realizing that their lump-sum retirement nest egg will likely run out well before they die unless they make significant lifestyle changes. This is not a good place to be.

So what can we do to avoid this scenario? In addition to working longer, we should think honestly about how much we really spend and do the math to figure out what kind of lump sum we need to save to last us through retirement, given probable annual spending.

For many people, this number is in the millions. Becoming aware of that now gives you options and time to figure out how to get there.

Let's learn from the mistakes of our parents' generation and take action to make sure we don't end up in an even more precarious position.

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