To Offset Potential S.S. Cuts, Save 10 Percent More

By Editor Test *Wed, Aug 4, 2010*

A hypothetical 45-year-old couple should save an extra $90,000 before they retire. At age 55, the same couple year-old should begin saving an extra $82,900, suggests economist Laurence Kotlikoff.

If Social Security benefits decline in the future—as many advisors expect—then people should consider saving more today, according to a July 31 *New York Times* article based on data from Boston University economist Laurence J. Kotlikoff.

Assuming an increase in the full retirement age to 70 from 67 (implying a 20% cut in Social Security benefits), Kotlikoff suggested that a hypothetical 45-year-old couple should save an extra $90,000 before they retire. At age 55, the same couple year-old should begin saving an extra $82,900.

In both cases, the couples would have to cut their discretionary spending (money left over after housing costs, taxes and retirement and college savings) by about 10% per year in order to meet the higher savings goal. In the example, the couple had to cut their annual discretionary spending from about $43,000 to about $39,000.

The hypothetical couple was tracked from age 35 to age 100, and was on track to save just over $1 million by age 65. Initially, they each earned $60,000, had each saved $37,500, and earned a return of two percentage points above inflation on their investments. They had two children, a $350,000 mortgage and lived in New York State.