

## Watch What People Do, Not What They Say

Conventional wisdom says you'll need to replace roughly 70-80% of your income in retirement.

These rules of thumb are always situation-dependent and rely heavily on a number of assumptions but this is the baseline most people set for themselves.

However, most people only say this number *because* it's conventional wisdom. When you dig a little deeper, we find most people have much higher expectations for their own retirement scenario. And those expectations are wildly out of whack with reality.

Dan Ariely and Aline Holzwarth shared their research on this idea in a [piece in the WSJ](#) this week:

*To find out what people actually will need in retirement—as opposed to what they think they will need—we took another group of participants and asked them specific questions about how they wanted to spend their time in retirement. And then, based on this information, we attached reasonable numbers to their preferences and computed what percentage of their salary they would actually need to support the kind of lifestyle they imagined.*

*The results were startling: The percentage we came up with was 130%—meaning they'd have to save nearly double the amount they originally thought.*

It's becoming exceedingly depressing to every time I read [another retirement savings statistic](#) for the country as a whole.

Here's the thing though -- we keep reading about how woefully prepared a large majority of the population is for their non-working years but I have yet to witness a geriatric bread line of retirees.

It's easy to shake your head at this type of research but you can't listen to what people say in these situations; you have to watch what they do.

Sure lots of people will say they'll spend 130% of their current income during retirement but that's not what they'll do.

The truth is most people have no idea what they'll spend in retirement. If people aren't tracking their spending enough to save prudently while in the working world there's no way they have a clue how it will translate after they're done working.

I'm sure everyone would love to retire in their 50s, travel the world, and sip Mai Tais on the beach. Unfortunately, reality won't match up with those expectations. This is why I believe we're not necessarily facing a retirement crisis in this country, but an expectations crisis.

When people do the math on their savings and potential lifespan, many will eventually come to the realization that they don't have nearly enough money to do everything they would like in retirement.

Many people will have to work longer than they expect. Others will have to drastically cut back on their lifestyle and spending. Still others will be forced to rely on family for financial aid. I'm guessing many will have to take [Tom Selleck's advice](#) to take out a reverse mortgage (I'm only half kidding here).

Working longer may not be how most people envision spending their time in their older years, but from a financial perspective, it may be their best shot at salvaging their finances. Social security benefits would be more than 70% higher by claiming them at age 70 as opposed to taking it at age 62. This would also give you 8 more years to save and avoid drawing down on your nest egg, which could add years to your financial longevity.

People will adapt once they reach retirement age for the simple fact that they'll have no other choice.

Further Reading:

[Now & Then](#)

Now here's what I've been reading this week:

- Smart beta is dead ([Alpha Architect](#))
- The oral history of the Columbia House 8 CDs for a penny ([AV Club](#))
- What does it mean to be a financial expert? ([Irrelevant Investor](#))
- How much your kids will inherit should impact how hard you work ([Rad Reads](#))
- What Harry Markowitz meant ([Jason Zweig](#))
- Concealed emotions ([Collaborative Fund](#))
- Life insurance is not for saving ([Belle Curve](#))
- The unreachables ([Reformed Broker](#))
- Will self-driving cars ruin the American city? ([The Atlantic](#))