

Consumer Information from Mid Oregon Credit Union

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Revisit, revamp your American Dream

NEW YORK (12/14/11)--The Great Recession has forced Americans to rethink their definition of the American Dream. Studies reveal a shift toward more modest goals--having a financial safety net and achieving personal fulfillment over becoming wealthy. Despite changing the yardstick, the dream is still out of reach for many (*Time* Dec. 1).

Nearly three quarters of Americans view financial security--in the form of savings to cover layoffs, illness, or other emergencies, as well as insurance and retirement accounts--as critical to achieving the Dream, according to the 2011 MetLife Study of the American Dream. However, nearly as many say they don't have a safety net in place, 53% report living paycheck to paycheck, and 38% report not having an adequate retirement savings plan.

The study also revealed that 76% of Americans are now taking a do-it-yourself approach to building their safety net and protecting their family's future, rather than relying on corporate or government programs.

Take steps now to get a better handle on retirement expense projections, whatever your definition of the American Dream. Ask yourself some simple questions and then do your own math:

- *Avoid the disappearing act.* Identify spending patterns now and determine what you *won't* be paying for in retirement. Will you pay off your mortgage? Finish paying off the kids' college debts? Save on taxes once you're not working?
- *Get real.* Count on higher health care costs, and determine if your dream includes travel plans.
- *Expect a spike, but not for long.* Studies indicate that your first years of retirement will be your most expensive (*Yahoo! Finance* Dec. 1). For average households, individuals age 65 to 75 spent an average of \$41,434 in 2010, or roughly 72% of the amount they spent during their prime earning years, according to Bureau of Labor Statistics data for 2010. In comparison, individuals older than age 75 spent only about 55% of their highest-earning years' income.
- *Size up current savings.* Do you have a pension from your current or previous jobs? List your balances in employer-sponsored retirement plans, IRAs, Roth IRAs, or other accounts. Visit ssa.gov for your projected Social Security payout.
- *Know your life expectancy.* Visit socialsecurity.gov/planners/lifeexpectancy.htm to calculate the average number of additional years you can expect to live.
- *Don't ignore inflation.* Inflation has averaged 3% a year since 1925. If you need \$50,000 in 2011 to cover annual living expenses, at 3% inflation you'd need about \$90,000 in 2031, and \$141,000 in 2041 just to maintain the same purchasing power.

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- *Run the numbers.* Use more than one retirement calculator and plug in the information you've collected. Expect different results across calculators--they all ask for slightly different information. Then tweak the data. By changing retirement age or expected interest rates, you get a sense of how small changes now have a big effect on how long your savings will last.

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