RETURN ON RETIREMENT

Investors fear retirement unknowns

COMMENTARY

Cam Marston, special to CNBC.com
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It's common knowledge that the baby boomers are hitting retirement in droves. Every month, more than a quarter-million boomers turn 65. That's a trend with amazing economic consequences.

What many people may not realize, however, is that the boomer's retirement could last six years longer.


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Why? Since 1965, the average retirement age has dropped almost two full years, while life expectancy at age 65 has increased four years. Basically, boomers, on average, are going to live longer than any generational group.

This puts an additional financial burden on boomers and creates anxiety for Generation X and millennials. And that puts pressure on financial advisors, who need to help investors tackle the unknown and prepare for what could be a longer post-retirement life.

Better late than never

Baby boomers don't have time to plan for retirement—they are already here. Whether they are prepared or not is another story. As the last generation expected to be more successful than their parents, they may have had unrealistic expectations of their ability to save.

Alternately, they may not have been concerned about saving early in their careers. After all, their parents and grandparents fared well with pensions and social security. And then there's the recession, which wiped out retirement funds right as many boomers were about to start needing them. It's a bleak picture.

But boomers are resilient and determined. They expect solutions and will work to find them.

When working with boomers, financial professionals need to change their language from "planning for retirement" to "what are your retirement plans."

It's key to understand how these boomers wish to approach retirement—as a delayed adventure, as a well-deserved rest—and then help them see how they can accomplish that plan, or at least a version of it.

Boomers are success-oriented. They need to know what is possible. If their retirement savings won't get them their ultimate dream, it's essential for them to understand what they can still do to make sure things align with their core values.

As for Gen X, they are overwhelmed. They are hitting their stride in the earnings years, but spending it as fast or faster than it comes in. They are in a high-cost period of life, with homes and cars and children and tuition and 100 different ways they need to stretch their dollars.

They know they need to save more for retirement—they really do. And they have the best intentions. But we all know where that path goes.

Caught between the boomers—who may have been slightly blindsided by the change in retirement strategy over the past few decades—and millennials who don't have any faith that the system will be there to help them out, Gen X is underprepared for retirement.

But it's not out of misinformation. If anything, it is from information overload. The numbers just seem too much, and they suffer analysis paralysis.

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To help Gen Xers get back on track for retirement, they need to focus on the time they have between now and their desired retirement age.

They are constantly comparing themselves to their peers, so a savvy financial professional needs to show them where they stack up. It's important for an advisor to use similar income levels, not average, or the Gen Xers will start discounting the advisor's stats. Encourage a snowball approach where they take a first small step and then gradually add more. In other words, make it palatable.

Of course, Gen X doesn't want to retire broke. However, they also want to enjoy today.

They are carpe diem kids and are not interested in sacrifice today for return tomorrow. The key is for advisors to turn the conversation around and show the Gen Xers how they can get what they want in retirement without having to feel like they are missing out on today.

No time like the present

Millennials are lucky in that they have plenty of time to think about retirement. This generation of savers also have no delusions of anyone helping them out. This combination would be an ideal audience for retirement planning, except for millennials' staggering student loan debt and their consumer-focused approach to life.

But millennials are also optimistic by nature. They want to make smart decisions and own their lives and their choices. The smart financial advisor will tap into that energy and show these young investors how small contributions today can give them greater freedom tomorrow.

Be aware, however, that millennials are not going to take kindly to the "Just one Starbucks a day can make a difference" pitch.

That $4 luxury feels like a birthright. Instead, an advisor should suggest they apply half of each year's raise or bonus toward retirement—it's money they weren't spending, and they have time to let those smaller contributions grow.

It's essential that these young investors develop good saving habits early.

—By Cam Marston, special to CNBC.com. Marston is president of Generational Insights and author of "Motivating the 'What's In It for Me?' Workforce" and "Generational Insights."