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Why Post 50s Aren't Saving Enough For Retirement

By: Laura Rowley **August 17, 2012**

I started saving for college for each of my three kids the year they were born. It was a primordial impulse for a second-generation American: My grandmother immigrated with an elementary school education; my father became a dentist. The belief that higher education leads to the widest array of life options is imprinted in my DNA. And so my husband and I decided from the get-go that our kids would go to college no matter what, and we would pay for their bachelor's degrees, with no debt.

We started with a ballpark goal: At the time, the College Board provided projections of the cost of four years of public college 18 years down the road (now there are calculators on the web that make this a snap). Then we backed that number out to see how much we needed to save each year, then each month, to hit our goal. (We assumed the money would grow at a conservative 7 percent a year over that period). Every year, I looked at our savings and re-ran the numbers to see if we needed to tweak things to stay on track.

"Tweak" doesn't begin to describe it. My oldest was born in 1997; in the subsequent decade, college tuitions rose 80 percent on average. Meanwhile, the returns we were achieving on our savings turned negligible or negative -- first during the dot-com bust and then again during the economic crisis, turning our 529 plans into a modern-day money pits. Every year, to stay on track, we had to throw more cash at our monthly goal.

Today, our monthly college savings is close to our mortgage payment, but barring a disaster, we will hit the goal -- my oldest matriculates in two years. But tuition inflation explains why we never traded up from our first small home, why we rarely darken the atrium of the local mall and why we drive a Kia (whose designers were clearly intent on copying an Audi, so it's our faux Audi -- or "the Faudi" for short.)

In any case, we are hardly alone. A new study by the National Center For Policy Analysis looks at how spending among baby boomers has changed in the last 20 years, in an effort to understand why they aren't saving more for retirement. The biggest change in spending was on education:

Between 1990 to 2010, education expenditures rose 80 percent for 45-to 54-year-olds and 22 percent for people age 55 to 64.

That was far more than health care spending, which jumped 30 percent for people age 45 to 54 and 21 percent for 55-to-64-year-olds, according to the study. (It included all out-of-pocket expenses and insurance premiums in its definition.) The report's author, Pamela Villarreal, noted:

"As with health care, the cost of a college education has grown faster than income for decades. Individuals are going deeper into debt to pay these expenses. Though some individuals choose to further their own education during midlife, it is likely that many baby boomers are helping their college-age children with college expenses and loan payments."

Meanwhile, incomes have remained relatively flat, the report notes, and older Americans have curbed spending on luxuries like eating out and shopping:

- Food purchases (including restaurant spending) tumbled 18 percent for 45-to-54-year-olds and 20 percent for people age 55 to 64.
- Household furnishings slipped nearly one-third for 45-to-54-year-olds and one-fourth for people 55 to 64 years old.
- Clothing expenses plummeted 42 percent for 45-to-54-year-olds and 70 percent for people 55 to 64 years old.

Villarreal recommends a change in federal policy so that individuals can contribute as much to an Individual Retirement Account (IRA) as they can to a tax-deferred 401(k) plan, since many people don't have access to company-sponsored retirement savings plans. Right now the annual contribution limit for 401(k) plans is $17,000 and $22,500 for people over 50, compared to annual limits of $5,000 and $6,000, respectively, for IRA contributions.

But it seems to me the best way to solve the retirement-savings deficit is to follow the money -- and get serious about curbing the skyrocketing cost of higher education.