Middle-class Americans are in a bind. The stack of monthly bills on the kitchen table has to be paid; the 401(k) plan needs steady contributions for retirement savings. Which financial obligation to choose? Predictably, middle-class Americans are choosing to stay current on their bills, according to results from the eighth annual Wells Fargo Retirement Survey conducted a few months ago.

Fifty-two percent said their most important financial concern was paying the bills, up from 37% just one year ago. Saving for retirement came in second, with just 16% naming this a daily financial concern.
This short-term focus could be brewing up disaster for many middle-class Americans’ prospects to retain their middle-class status into retirement.

Consider this statistic: More than one-third (34%) of middle-class Americans estimate they’ll live on less than 50% of their pre-retired income. The U.S. Census Bureau reports the median 2011 household income was $50,054. Half of that amount--$25,000—puts these retired Americans at or near the poverty line for a family of four and not too far from the id="mce_marker"1,000 poverty line for a couple at age 65, according to federal government calculations.

More than half of Americans not yet retired (53%) aren’t confident they will have saved enough for the life they want in retirement. That reflects another big jump in survey results, with just 42% voicing this lack of confidence in 2011.

There’s been so much talk in the media about the looming “fiscal cliff,” referring to the automatic tax increases and spending cuts that go into effect if Congress doesn't act. From our perspective, there's an even bigger cliff facing middle-class individuals—the retirement cliff and their potential exit from the middle class.

Individual responsibility

Middle-class Americans realize they are in the driver's seat when it comes to planning for their future. When asked to rank the entities responsible for funding retirement, 50% said the individual is most responsible, followed by 27% seeing responsibility falling on the employer through a pension and 24% citing the chief responsibility falls on the government through Social Security.

With this recognition, how are Americans doing? What helps them arrive at retirement goals or calculations for their futures? For most, it's a guessing game. Not quite half (42%) report they base calculations on "an educated guess." Another 33% admit calculations are based on "a wild guess." Just 22% characterize their retirement savings efforts as detailed and based on "calculations."

One important calculation shared in our survey—for out-of-pocket healthcare costs—definitely misses the mark. The median of out-of-pocket healthcare costs reported by Americans was $50,000. Experts at The Center for Retirement Research at Boston College offer much different numbers, predicting a retired couple at age 65 can expect to spend $260,000 or more for out-of-pocket lifetime healthcare costs. Using that calculation, Americans will need to more than double this budget line item.

People continue to report the need to work until they are at least 80 to make ends meet. Results in this year's survey show more in that group—30% acknowledging they will have to work to that age, compared with 25% one year ago. A big majority (73%) of middle-class Americans also admitted that their employer wouldn't want them to keep working up to their 80th birthday.

Seventy percent continue to say they'll work in retirement. Of that group planning to work, 39% say working longer is a necessity and 31% plan on working longer because of choice. Nearly half (49%) of middle-class folks in their 40s and 50s predicted working in retirement will be a necessity.

Current financial trends

We worry as we hear middle-class Americans talk about what they'll need in retirement and where they are on the savings journey.

People in our most recent survey estimated a median of $300,000 would be needed to support them in retirement. That same group, on average, has only saved $25,000—an alarming gap to fill.

As Americans look at the savings gap, they recognize the need for change. More than half (51%) of people said they need to "significantly" cut back on spending in order to increase savings rates for retirement. An even larger majority—61% of middle-class Americans in their 50s—agreed with this thought.

Another survey question illustrates this issue perfectly. When asked to consider the past 12 months, middle-class Americans told us that they had spent the most time planning a home remodel, with planning a vacation coming in second. Third on the list: planning for retirement.

All is not lost, however.

- People are saving for retirement, with 48% agreeing that the 401(k) plan is the "best retirement savings vehicle." Others noted were the IRA with 23% and a savings account with 12%.
- In a 401(k) plan, 34% of middle-class Americans contribute between 3% and 5% of income while 32% contribute at a rate of between 6% and 10% of income. Twenty-four percent are saving more than 10% of their income in the employer-sponsored plan.
- More companies are matching 401(k) funds this year—77%—up from 66% in 2011.

Long-term solution: shared responsibility

As people picture their retirement and their needs, the landscape doesn't look viable.

Plans to work until age 80—cited by a growing number of people—seem shaky at best in the current market. At a time when job creation is unsteady and slow in most sectors, we don't believe working this long is a realistic solution for most Americans.
Then, consider what numbers are given when envisioning drawing down retirement savings. People predicted that, on an annual percentage basis, the mean withdrawal would be 10%. Many experts say that to guard against outliving money, people should plan on 3% or 4% withdrawal rates annually.

These results deliver sobering news to the American middle class and to the nation. They underline the need for a far-reaching conversation about retirement. Some have written off any hope of retirement, with plans to work into old age; others have based savings plans on a guess as to how much they will need.

Individuals are extremely challenged preparing for retirement on their own. Employers cannot be expected to fill this entire large retirement savings gap given growing pressures of other benefits costs and challenges to their companies' economic sustainability. The U.S. government, also, can't be expected to solely support the millions of Americans joining the retired ranks at record rates with life expectancies well into their 80's.
One potential long-range solution to this retirement dilemma is shared responsibility. As a nation, we need a balanced partnership between the government, employers and employees to help shore up the current retirement system—to change regulations, tax policy and plan design with the goal of increasing participation and savings rates to much higher sustainable levels. Failure to act now could result in millions of middle-class Americans living near poverty in their retirement years.
This article was written by Wells Fargo and provided courtesy of (legal name of financial advisor as disclosed to FINRA). (Name of financial advisor) is a financial advisor with Wells Fargo Advisors, based in (city, state). He/She can be reached at (phone number.)

non-bank affiliates of Wells Fargo & Company: Wells Fargo Advisors, LLC and Wells Fargo Advisors Financial Network, LLC (members SIPC). Investment products and services are offered through Wells Fargo Advisors, LLC.