

## Many Households Are at Risk In Their Retirement Finances

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6 June 2006

The Wall Street Journal

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English

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A new measurement of Americans' finances shows that almost half of working-age households -- given current savings rates and changes in pensions and Social Security -- are at risk of being unable to maintain their standard of living in retirement.

The study, by the Center for Retirement Research at Boston College and scheduled to be released today, provides some of the clearest evidence to date of what economists have been warning for years: that many Americans are doing far too little to prepare financially for retirement and are unaware of how their lives might change, as a result.

"Retirement is going to get tougher for people over time, and people don't know it," said Alicia Munnell, the center's director and one of the authors of the research, in an interview. "Look at these numbers; they tell you that there's trouble ahead."

The report notes, however, that the "situation is not hopeless." Changes in behavior, including saving more money and pushing back planned retirement dates, can help families "substantially improve their retirement security."

Starting with data from the Federal Reserve Board's 2004 survey of 4,500 U.S. households and their finances, Dr. Munnell and her colleagues developed what they call a National Retirement Risk Index. The index projects the amount of income U.S. households likely will have at age 65, compared with their preretirement income. This "replacement rate" is then compared with a target income rate, one that would allow a family to maintain its preretirement standard of living. A household is considered to be "at risk" if it falls more than 10% short of the target income.

In all, 43% of working-age households currently are at risk of seeing their standard of living fall in retirement. The numbers are especially worrisome for younger families and low-income families. In the case of "Generation Xers," born between 1965 and 1972, about 49% will probably lack the needed funds to maintain their standard of living in retirement; among low-income families, 53% are at risk.

The margin of error is plus or minus two percentage points. The center plans to update the index every six months. The research was funded by Nationwide Mutual Insurance Co. in Columbus, Ohio.

If anything, the findings may understate the size of the problem, Dr. Munnell said. That is because the research makes several conservative assumptions. It assumes people will retire at age 65, when in fact many Americans retire earlier; it assumes that families will annuitize their wealth -- and take out a reverse mortgage on their homes for additional financial support.

Overall, "the numbers support the story that we've been telling for the past seven or eight years," Dr. Munnell said. Namely, that several key changes in society and business are changing the way Americans finance their retirements. People are living longer; traditional pensions are disappearing; savings rates are anemic, both in personal accounts and 401(k)s; and the point at which people qualify for full Social Security benefits is rising gradually to age 66.

Taken together, the changes mean that retirees in years to come will have to do more with less: They must figure out ways to finance, on their own, retirements that easily could last 20 or 30 years.

The fact that many Americans under age 60 aren't taking such forecasts seriously reflects in large part the experiences of their parents and grandparents, who appear to be quite comfortable in retirement. That observation is true -- if highly misleading, Dr. Munnell said.

"We're in something of a Golden Age for [current] retirees," she explained. "A lot of them still have traditional pensions; a lot of them just enjoyed a wonderful run-up in housing prices. So it's hard to focus people's attention on trouble ahead when [retirees] seem to be doing fine right now."

At the same time, the report notes that even modest changes in consumers' behavior can result in big improvements in retirement finances. Retiring at age 67, for instance, instead of age 65, reduces the households at risk by 11 percentage points; saving an additional 3% of each paycheck results in the same effect for "Generation X" households, who would have a longer time to benefit from increased savings than baby boomers.

"The point [of the index and research] is to demonstrate that there's a problem," Dr. Munnell said. "If people understand there's a problem, then they can think about changing their behavior. But if people don't even think there's a problem ahead, there's no way to motivate people to stay in the labor force longer or to save a little bit more."