Facts on Aging: Saving for Retirement

The Pepper Institute on Aging and Public Policy

Florida State University

The average American retiring at age 65 can expect to spend 18 years in retirement – but with good health, retirement could last 30 years or more. On the other hand, reports of record low saving rates and declining participation in pension plans combined with weakened Social Security indicate an uncertain financial future for retirees. Are Americans financially prepared for their golden years?

How to Finance our Retirement

- Social Security is currently still the mainstay and provides 73% of the retirement income for the typical household. But it will provide less in the future, due to increased retirement age, increased Medicare Plan B premiums and increased taxation.

Source: Center for Retirement Research/A. Munnell & A. Sunden: 401(k) Plans are still coming up short

- From 1983 through 2001 the ratio of wealth to income has remained virtually unchanged at any given age. This suggests that the boomers and the cohorts that follow are as well prepared for retirement as their parents. But this stable pattern is not good news for four reasons: 401(k) plans have replaced defined benefit plans, interest rates have declined, life expectancy has increased, and health care costs have risen.

Source: Center for Retirement Research

- Health care costs have been on the rise and are projected to continue to increase. For example, out-of-pocket expenditures for premiums and copayments under Medicare Part B have risen from 6.8% of the average Social Security benefit in 1980 to 16.9% today and are projected to reach 19.7% in 2030. The rising cost of health care relative to Social Security is one more reason why people should have higher wealth-to-income ratios today than in the past to maintain their standard of living in retirement.
- 35% of households have no pension whatsoever in retirement and must rely almost entirely on Social Security.

Source: Center for Retirement Research/A. Munnell & A. Sunden: 401(k) Plans are still coming up short

Saving for the Future

- Only 42% of Americans have calculated how much they need to save for retirement.

Source: U.S. Department of Labor

- The typical household is approaching retirement with less than $30,000 of financial assets.

Source: Federal Reserve's Survey of Consumer Finances, 2004

- 401(k) plans have shifted the rate of return risks and responsibilities for retirement savings from the employer to the employee. A significant percent of eligible employees fail to join the plan, few contribute to the maximum, most do not diversify their investment or re-balance their accounts over time, many over-invest in company stock, and roughly half of participants cash out when they change jobs.

Source: Center for Retirement Research/A. Munnell & A. Sunden: 401(k) Plans are still coming up short

- Among defined contribution pension plans of publicly traded firms with some employer stock, 40.8 percent of plans have over 50 percent of their assets in employer stock.
- Pension plans that hold employer stock have lower risk-adjusted return performance. While modest holdings of employer stock (i.e., under 50%) have relatively small effects on performance, the effects are quite dramatic when the asset share rises from 50 to 100%.

Source: Macpherson, D. & Even, W.: The Causes and Consequences of Pension Investments in Employer Stock

- Debts can also prevent people from adequately saving for retirement, and 6 in 10 workers describe their level of debt as a problem. Twenty percent say it is a *major* problem, and 39% say it is a *minor* problem. Non-savers (35%) are more than twice as likely as savers (14%) to describe their level of debt as a *major* problem.

Source: Employee Benefit Research Institute

- When asked about the most practical way for people to accumulate several hundred thousand dollars, over half (55%) of those surveyed said “save something each month for many years.” Yet, more than one-fifth (21%) said “win the lottery,” and among the least affluent and those over 55 years of age, these percentages were much higher – 38% and 31% respectively.

Source: Consumer Federation of America Survey, 2006

Women and Retirement Savings

- Seven out of ten Baby Boomer women are expected to outlive their husbands. Some of those women will be widows for 15 to 20 years. The financial impact of living longer than men is profound. According to the Administration on Aging, older women:
  - are twice as likely as men to live in a nursing home;
  - are more than twice as likely as men to live their retirement years in poverty;
  - will spend more years and a larger percentage of their lifetime disabled;
  - make up three out of four persons over the age of 65 who receive Supplemental Security Income.

Source: Administration on Aging

“*Americans seem to have the feeling that it is whimpish to save. The idea is to put away money for old age and we’re just not doing that.*”

David Wyss, chief economist at Standard & Poor’s

- Women on average spend 10 years away from the workforce versus one year for men. Financially, this results in lower overall earnings and smaller pension and Social Security benefits. For every year a woman stays out of the workforce, it will take her five years to recover lost income, pension coverage, and career advancement.

Source: Toddi Gutner, “Women’s Investing: Vive La Difference”

- Of the 59 million wage and salaried women working in the United States as of June 2000, less than half – just 47% – participate in a pension plan. Woman are more likely to work in part-time jobs that don’t qualify for pension coverage, or to work fewer years in pension-covered employment because of interruptions in their careers to take care of family members.

Source: U.S. Department of Labor

- The median benefit received by newly retired women was half of that received by newly retired men. In hard dollar terms, women 65 or older in 1995 who received benefits from an annuity and/or an employment-based pension plan, averaged $6,684 in benefits. Men pensioners averaged $11,460.

Source: Employee Benefit Research Institute

- Over half the elderly widows now living in poverty were not living in poverty before their husbands died. The picture is even worse for older women in many minority groups. *Source: Administration on Aging*

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