PLANNING FOR RETIREMENT:
HOW MUCH LONGER DO WE NEED TO WORK?

"Almost half of working households will be prepared to retire at age 65. Approximately one-quarter of households will have to work an additional one to three years, while 17% will have to work four to six years beyond age 65."

As the goal of attaining retirement security becomes more difficult to achieve, many aging workers believe that they may never be able to afford to retire.[1] There are a number of reasons why a secure retirement is more challenging to achieve for today's workers. Increases in life spans, lower Social Security replacement rates, lower interest rates, fewer companies providing traditional defined benefit pensions, and individuals not saving enough all play a part in making the challenge more difficult.[2]

The Center for Retirement Research at Boston College (CRR) conducted research to determine at what age the vast majority of households will be prepared to retire. The points below summarize CRR's methodology and findings. More detailed results can be found in the CRR Issue Brief "The National Retirement Risk Index: How Much Longer Do We Need to Work?," by Alicia H. Munnell, Anthony Webb, Luke Delorme, and Francesca Golub-Sass.

The research was based on the CRR's National Retirement Risk Index (NRRI), which measures the share of American households at risk of being unable to maintain their standard of living in retirement.

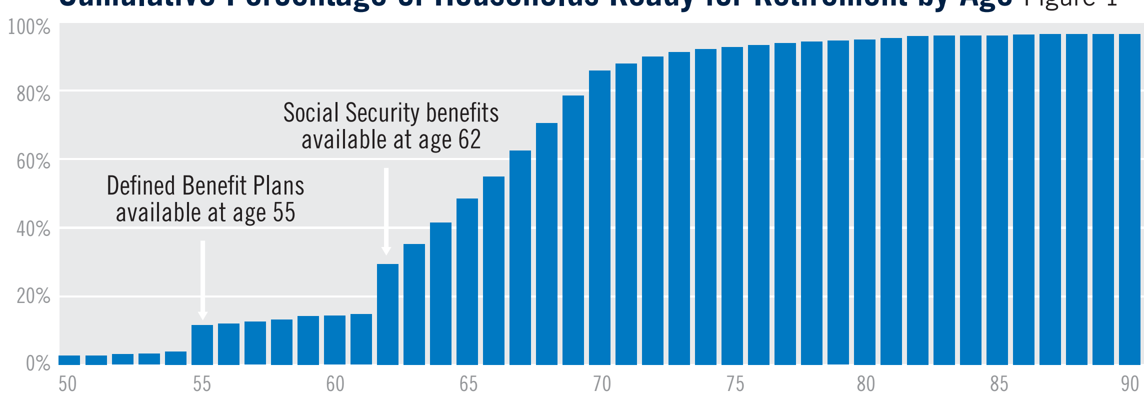
The NRRI is constructed using data from the Federal Reserve's Survey of Consumer Finances. The Index results from comparing households' projected replacement rates – retirement income as a percentage of pre-retirement income – with target rates that would allow them to maintain their living standard. The NRRI assumes retirees annuitize all of their financial assets.

The results of the new research adapt this standard NRRI calculation to address the question of how much longer households need to work.

Findings

- Over time, the NRRI has found that an increasing percentage of households will not be prepared to retire at 65: from 30% in 1989 to approximately 50% today.
- However, more than 85% of households will be prepared to retire by age 70. Figure 1 shows the cumulative percentage of households ready by age. The steep improvement in readiness from ages 62 through 70 reflects the importance of Social Security and the pattern of Social Security benefit increases between those ages.

Cumulative Percentage of Households Ready for Retirement by Age Figure 1



[1] CareerBuilder.com survey conducted by Harris Interactive, January 2011.
[2] Prudential Financial, "Achieving Retirement Security in an Era of Uncertainty," April 2012.

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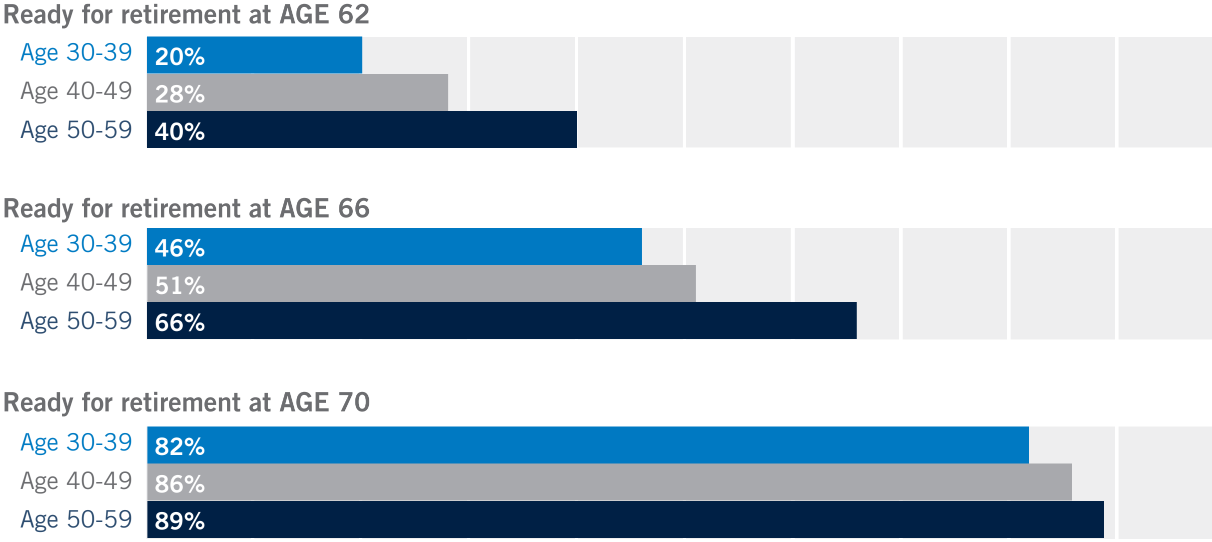
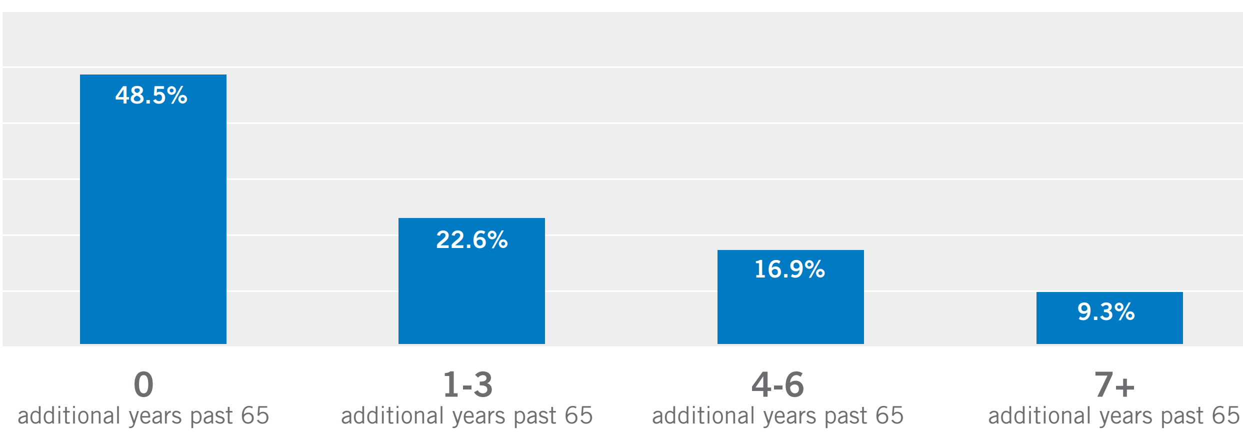
- Today's younger households will be less prepared for retirement at selected ages than will older households (see Figure 2). There are three main reasons why this is the case. First, younger households have longer projected life spans, which means they will need more assets to fund their retirement. Second, Social Security replacement rates are lower for younger households because of increases in Social Security's Full Retirement Age. Third, fewer younger households are covered by traditional pension plans.

Percentage of Households Ready for Retirement at Selected Ages Figure 2



- Almost half of working households will be prepared to retire at age 65. Approximately one-quarter of households will have to work an additional one to three years, while 17% will have to work four to six years beyond age 65 (see Figure 3).

Number of Years Beyond Age 65 that Households Must Work to Attain Readiness Figure 3



- While today's workers may need to retire at older ages than earlier generations, the good news is that most households can still plan to enjoy a reasonable period of retirement, especially as life spans increase.

IMPLICATIONS

Individuals

Individuals can take several steps to help themselves along the path to retirement security:

- **Plan for the possibility of working a few years longer** than the traditional retirement age of 65. Although not an option for everyone, doing so has the triple benefit of delaying the receipt of Social Security by a few years (and ultimately receiving higher monthly benefits), earning wages and accumulating savings for a few more years, and drawing down on retirement savings for fewer years.
- **Ramp up the rate of savings** if members of the household have designs on retiring at age 65 or earlier.
- **Consider insuring retirement income** against the risks of longevity and market uncertainty. Guaranteed lifetime income products that help insure against these risks are available in the retail marketplace, as well as in an increasing number of defined contribution plans.
- **Have an adequate amount of life insurance in place.** Due to the increased importance of working and saving within a household, individuals who are the primary income earner within a married couple should carry an adequate amount of life insurance to protect the retirement prospects of a surviving spouse in the event of the wage earner's premature death.
- **Seek the counsel of a trusted financial advisor.** Households should work with a financial advisor for help in making important retirement planning decisions and selecting retirement income products.

Employers

To help their workers achieve retirement security, employers should consider the following actions:

- **Enhance defined contribution plans to help employees achieve more certain outcomes.** If employers have not already done so, they should consider adding features such as automatic enrollment, automatic escalation of contributions, and in-plan guaranteed lifetime income products.
  - Participants in defined contribution plans who utilize an in-plan guaranteed lifetime income product may need a lower level of accumulated assets to achieve a target level of retirement income than participants who do not utilize such products. Participants who utilize guaranteed lifetime income products may therefore be able to retire earlier than those who don't. This helps employees achieve their retirement goals, and also helps employers manage their workforces.[3]
- **Encourage employees to track their savings progress in terms of an income goal,** rather than a savings goal, at a realistic target retirement age.

Financial Advisors

Financial advisors can help clients meet their retirement planning objectives by taking the following steps:

- **Develop an appropriate target retirement age** that is customized for each individual.
- Utilize financial planning software to **show the positive impact that a few extra years of employment can provide** in terms of increased financial security.
- Help clients **frame the retirement planning question in terms of future retirement income** rather than a savings objective.
- Help individuals **understand the role of guaranteed lifetime income products, life insurance, and Social Security claiming options** as part of a comprehensive financial plan.

Policymakers

There are a number of ways that policymakers can help Americans achieve a more secure retirement:

- **Create safe harbors** that address potential employer concerns regarding the addition of guaranteed lifetime income products to defined contribution plans.
- Adopt regulations that **require defined contribution plans to project future monthly income** on participant statements.
- **Pass legislation that makes it feasible for more employers to offer a retirement savings plan** in the workplace.

[3] Prudential Financial, "What Employers Lose in the Shift From Defined Benefit to Defined Contribution Plans … and How to Get It Back," July 2011.

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