

More Americans May Be Adequately Prepared for Retirement Than Previously Thought

While many believe that Americans are in terrible shape when it comes to being financially prepared for their “golden years,” new evidence indicates that the news may not be as dire as previously thought. Moving away from previous studies that focused on income replacement rates, a recent report from the RAND Corporation looks instead at consumption in retirement to gain a better understanding of what is needed for adequate preparation. This focus on consumption reflects the fact that spending during retirement is not flat; instead, it tends to decline with age for the vast majority of people, who spend less money on travel or other leisure activities, as well as less on transportation, clothes, and other regular expenses.

Using a rich data-focused approach, RAND researchers came to the conclusion that, overall, about 71 percent of individuals ages 66–69 are adequately economically prepared to retire, given expected consumption. Other key findings—with consequences for both individuals and policymakers—indicate large disparities across subsets of the population and highlight the significant contribution of Social Security to seniors’ financial preparation for retirement.

Almost Three-Fourths of Americans Are Adequately Prepared for Retirement, but Wide Gaps Exist

The RAND study, which looked at 633 single individuals and 1,092 married individuals ages 66–69, found that, overall, approximately 71 percent were adequately economically prepared for retirement. In this assessment, “adequate preparation” requires that individuals have a 95- to 100-percent chance of dying with positive wealth and that reductions in remaining lifetime spending to achieve this be less than 10 percent.

As shown in the table on the following page, a breakdown of the data by education, sex, and marital status exposes large disparities. For example, while over three-fourths of married individuals are adequately prepared, this is the case for only 55 percent of single individuals. And while married women tend to show higher levels of preparation than married men, single women fare considerably worse than single men. Particularly large differences emerge when splitting the sample

Key findings:

- Overall, 71 percent of Americans are adequately prepared for retirement: 80 percent of married persons and 55 percent of single persons.
- Those with low education are much less adequately prepared than those with higher levels of education, especially single women.
- Social Security benefits contribute significantly to financial security at older ages.

by education: Among married individuals, some 89 percent of college graduates are prepared, compared with only 70 percent of those lacking a high school education. Among single individuals, 69 percent of college graduates are prepared, but for single individuals who did not complete high school, this number drops to only 36 percent. At the most extreme end, single women with low education (less than high school) are at a particular disadvantage: Only 29 percent are adequately prepared for retirement.

Changes in Social Security Benefits Could Leave Many Unprepared

Under current law, Social Security will only be able to pay scheduled Social Security benefits until about the year 2035. The researchers therefore investigated the impact on individuals’ economic preparation if Social Security benefits were cut by 30 percent. Under this scenario economic preparation of singles is reduced by 10.7 percent. Even among married individuals, preparation falls by 7.8 percent, suggesting that Social Security plays an important role in securing the economic preparation of all studied groups.

Additional Considerations

While Social Security benefits contribute to adequate retirement preparation for all individuals, differences in the chance to survive to advanced old age by sex, marital status, and

Percentages of Americans Ages 66–69 Adequately Prepared for Retirement

| Education Level | All | Single Persons | | | Married Persons | | |
|------------------------------|------|--------------------|-------|---------|---------------------|-------|---------|
| | | All Single Persons | Males | Females | All Married Persons | Males | Females |
| Did not complete high school | 54.2 | 36.0 | 63.6 | 29.0 | 70.1 | 70.2 | 69.9 |
| High school | 73.5 | 62.1 | 66.7 | 60.5 | 79.5 | 77.2 | 80.8 |
| Some college | 70.7 | 53.8 | 62.5 | 51.0 | 80.7 | 77.2 | 82.6 |
| College and above | 82.5 | 68.5 | 65.0 | 69.6 | 88.5 | 86.5 | 90.2 |
| All | 70.6 | 54.5 | 64.9 | 51.3 | 79.9 | 77.9 | 81.1 |

education may affect the need for private savings. For example, a 62-year-old single man with low education has a 50-percent chance of surviving to age 75, while a 62-year-old married man with high education (college and above) has a 50-percent chance of surviving to age 90, indicating a need for greater private retirement resources.

Long-term-care expenses can be large, which is of particular concern for couples in which one spouse needs nursing home care. Savings can be depleted by care costs until such a couple qualifies for Medicaid, at which point the spouse in the nursing home will have care expenses covered, while the community-based spouse is left without adequate resources.

And long-term-care insurance policies often are designed in ways that leave considerable risk uninsured.

An assessment of resources should include home values, as was done in this study. Although many retirees only use housing wealth as a last resort, it can have a considerable impact.

High-income groups are more likely to have pretax retirement assets (IRAs) and are more likely to have a high percentage of their Social Security benefits taxed, implying that taxation will have a greater effect on the retirement preparation of high-education individuals than on those with low education.

This research brief describes work done in RAND Labor and Population and documented in “Economic Preparation for Retirement” by Michael D. Hurd and Susann Rohwedder, Chapter 2, pp. 77–113, published in David Wise, ed., *Investigations in the Economics of Aging*, University of Chicago Press, 2012 (EP-50403, www.rand.org/t/EP50403). The RAND Corporation is a nonprofit institution that helps improve policy and decisionmaking through research and analysis. RAND’s publications do not necessarily reflect the opinions of its research clients and sponsors. RAND® is a registered trademark. © RAND 2014



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