NRPC

National Retirement Planning Coalition

Backgrounder

The "Retirement Readiness" Crisis

A retirement readiness crisis exists in the United States. The cause: Millions of Americans have failed to established a retirement plan that will ensure a steady, secure stream of retirement income to fund their envisioned retirement lifestyles. Most Americans assume that their retirement income will come from a combination of Social Security, pension plans and whatever savings they have accumulated. In reality, the Social Security system was never intended to be the sole means of retirement income, employer pension programs are becoming less common, and accumulated assets are at the mercy of volatile market fluctuations in these challenging economic times.

With more than 77 million "baby boomers" in the United States fast approaching retirement age, the need for retirement planning in America has never been greater. The majority of these individuals have not only significantly underestimated the income needed to support their envisioned retirement lifestyles, but they have failed to account for retirement income risk factors that may cause their retirement resources to run out well before their retirement objectives are fulfilled.

As a result, the envisioned retirement lifestyles of many baby boomers may be in jeopardy unless they take action now to ensure they will have the retirement income needed to provide financial security in retirement.

Key factors fueling the national crisis in retirement readiness include:

- Far fewer companies today are offering comprehensive pension plans than in times past
- Social Security is expected to play a diminishing role in providing an individual's retirement income
- Americans are living longer, healthier lives
- Health care costs are rising
- The recent economic downturn has wiped out a significant portion of Americans' accumulated assets earmarked for retirement

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- Failure to address key risk factors that may have a significant impact on American's ability to retire as planned
    - Longevity risk: the risk of outliving retirement assets
    - Financial market risk: the risk that the economic and financial market volatility may jeopardize retirement plans

As a result, the vast majority of Americans will either fall short of accumulating the assets necessary to maintain the standard of living they have grown accustomed to, or their management of their retirement income will not yield the desired result.

Key Statistics

The following are a few key statistics that underscore the retirement readiness crisis:

- Social Security supplied only 39 percent of retirement income for persons 65 and older in 2001.[1]
- In 1965 there were four active workers paying Social Security taxes for every person receiving benefits. By 2040, this ratio will decline to 2:1.[2]
- For more than 70 percent of married couples, at least one spouse will still be alive at age 85, and 45 percent of married couples will have one spouse reach at least 90.[3]
- 46 percent of people over 65 will live in nursing homes for some time during the next 20 years, costing as much as $100,000 per year.[4]
- Individuals need to save $230,000 for every $1,000 in monthly retirement income.[5]
- Only 31 percent of working Americans have saved $100,000 or more for retirement.[6]
- Only about 15 percent of working-age Americans have an IRA, and only 22 percent contribute to a 401(k) plan.[7]
- The value of the average 401(k) account has declined 30 percent since 1999.[8]
- A study of individuals aged 50-70 found that 45 percent expect to be working into their 70s or beyond; 42 percent expect that during retirement they will have to earn additional income to help pay the bills.[9]
- The value of assets expected to be passed on to the next generation has declined 70 percent as a result of the recent market decline.[10]

What Can Be Done to Avert the Crisis?

With the complexity of financial options available today for retirees, more people need help and guidance. Keeping current with tax law changes, private letter rulings and complicated tax planning can be an overwhelming task. In addition, portfolio risk exposure needs to be reduced as retirement nears, and investment maturities need to be timed to provide cash flow appropriate to changing needs as retirement years progress.

For these reasons and others, it is becoming increasingly important for prospective retirees to begin developing a retirement plan as soon as possible. For many Americans, this will mean consulting with a certified financial advisor or retirement planner early and often.

To this end, The National Retirement Planning Coalition (NRPC) has been formed to increase awareness of retirement planning issues and to offer tools and information to assist Americans in their individual retirement planning efforts.

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[1] Social Security Administration, 2003
[2] Social Security Administration, 2003
[3] Society of Actuaries
[4] AARP
[5] Charles Schwab, Inc.
[6] Charles Schwab, Inc.
[7] Employee Benefit Research Institute (ERBI) and the U.S. Census Bureau
[8] Wuelfing and Company, 7/03
[9] AARP
[10] *Christian Science Monitor*, 9/3/03