

Who is Ready for Retirement, How Ready, and How Can We Know?

Policymakers, analysts, and the media are bracing for a wave of retiring baby boomers in the coming years and questioning what kind of living standards this generation can expect in retirement. Will boomers have enough income and assets for retirement that may last decades? Are they better off than their parents were? How can they be encouraged to plan?

This report evaluates multiple studies that look at issues boomers face, such as how much income they will need in retirement (income replacement rates); how savings and wealth are linked; how boomers compare financially with their retired parents (intergenerational comparisons); what groups are vulnerable (marital status and education) and what role housing plays in retirement income.

Key findings of these studies include:

- At least half of baby boomers are on track to a comfortable retirement. However, substantial numbers of them are not. The gap between the haves and the have-nots is likely to be greater than in previous generations. This could create a class of seniors more heavily dependent on government and support from younger generations.
- Some boomers won't retire—a recent report suggests that one in four boomers can't afford to retire.
- Many boomers – even those on the verge of retiring – are clueless about how much income they'll need.

This brief describes a new report—written for the AARP Public Policy Institute by Sophie Korczyk of Analytical Services, Inc.—which evaluates a series of studies on the financial challenges baby boomers face in retirement and explains what they tell us about boomers' retirement preparation.

- Boomers who are single when they begin retirement (divorced, widowed), will most likely outlive their resources;
- Boomers who have not graduated from high school, may have higher income replacement rates in retirement (due to lower income), but are more likely than other educational groups to outlive their resources.

Taken as a whole, these studies show there is no one right way to measure how well prepared boomers are for retirement. However, it makes clear that if boomers are poorly prepared for retirement, the much smaller generation that follows could face crushing economic burdens. This report examines many sources of information, points out where there is consensus and identifies where there are disagreements.

Income Replacement Rates

How do you figure out how much income a boomer will need for retirement? An examination of the widely accepted “rule of thumb” that you need to replace 70 percent of pre-retirement income shows this has definite limitations and doesn't factor in changes in circumstances, such as volatile investment

markets, longer than expected longevity and health care spending.

Savings and wealth

How well have boomers' savings patterns aligned with their likely lifetime spending needs? Studies consistently show that some boomers will have a comfortable retirement; others have a long way to go to make income match desired spending. Measuring savings and wealth directly has advantages over replacement rates because it takes into account a household's changing financial circumstances and choices over time.

Intergenerational comparisons

Most studies show boomers can expect to do better than their parents on many measures of financial well-being. However, for those whose income isn't enough to match their pre-retirement lifestyle, it will be scant comfort to know their parents lived on even less.

Vulnerable groups

Entering retirement single has clear disadvantages. Unmarried, widowed or divorced retirees are likely to outlive their resources. Those with less than a high school education are also economically vulnerable and face a greater chance of outliving their financial resources.

Housing

For most people, their home is their biggest financial asset and home equity has traditionally not been tapped until well into late retirement years. Baby boomers may not have this luxury and may have to resort to reverse mortgages to make up the difference between a difficult retirement and one that maintains pre-retirement living standards.

Public Policy Implications

The nation has a stake in the decisions baby boomers make about retirement. The impact on Social Security and Medicare is widely known

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but there are other consequences. A core of baby boomers with serious economic needs could become a large new dependent population. Some policy options could help both the boomer and the U.S. economy:

Improve financial education. Baby boomers are surprisingly unaware that the retirement age when they can collect retirement benefits such as Social Security, is steadily increasing. The Social Security Administration should do a better job helping people understand their retirement options and more research needs to be done on the financial education employees and consumers need.

Educate employers to hire older workers. Many older workers want to work past retirement age; others may have to work. But finding work may be difficult. Age discrimination still exists in the workplace in various forms. Diversity in the workplace is increasingly accepted; older workers should be part of the diversity picture.

Phased retirement. Government should encourage older workers to work longer by promoting phased retirement, the so-called "bridge" jobs and part-time jobs.