Retirement Income
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Couples readier for retirement than singles: RAND

By Editor Test *Wed, Jul 13, 2011*

A 30% reduction in Social Security benefits would reduce the percentage of married people who are adequately prepared for retirement by 7.8 percentage points and the percentage of single people by 10.7 percentage points, two RAND economists found.

Economists at the Rand Corporation recently analyzed the economic resources of a group of Americans between ages 66 and 69 to see how well prepared they were to maintain their established standard of living ("level of consumption") throughout retirement. Those who died with positive assets were considered to have been adequately prepared.

"We find that 71% of persons in our target age group are adequately prepared according to our definitions, but there is substantial variation by observable characteristics: 80% of married persons are adequately prepared compared with just 55% of single persons," wrote Susann Rohwedder and Michael D. Hurd in a new paper, "Economic Preparation for Retirement" (National Bureau of Economic Research Working Paper No. 17203, July 2011).

The researchers looked at the impact of reducing Social Security benefits. "We estimate that a reduction in Social Security benefits of 30% would reduce the fraction adequately prepared by 7.8 percentage points among married persons and by as much as 10.7 percentage points among single persons," the paper concluded. Only 29% of single females without a high school diploma were prepared. The authors factored in the effects of taxes, spousal death, variations in life expectancy and out-of-pocketing health care costs.

"Many singles who lack a high school education are not well prepared: even were they to reduce initial consumption by 10 percent, about 64% would still face a probability of running out of wealth greater than 5 percent," the paper said. "Economic preparation by couples is much better than preparation by singles. Nonetheless there is substantial variation by education with some 89% of college graduates being prepared compared with 70% among those lacking a high school education."

The authors believe that the income replacement ratios normally recommended for retirees (i.e., 70%-80% of pre-retirement income) are not ideal, since many retired people can live as well as ever on much less money, simply because their expenses often decline significantly after they retire.