Half of working-age Americans save too little

By Editorial Staff *Thu, Jul 24, 2014*

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About half of working-age households in the U.S. are not saving enough to maintain their pre-retirement standard of living in retirement, according to the National Retirement Risk Index, a co-venture of the Center for Retirement Research at Boston College and Prudential Financial.

In a new research brief, the CRR's Alicia Munnell, Anthony Webb and Wenliang Hou, recommended that "households should plan to get between one-quarter to one-half of their retirement income from retirement savings plans, such as 401(k)s."

The latest iteration of the National Retirement Risk Index, from 2010, showed that 53% of working-age households are at risk for a decline in living standards after they retire. That's the highest level since the beginning of the index in 1983, and up from 44% in 2007. The next iteration of the NRRI is due in early 2015, after the release of the Federal Reserve's Survey of Consumer Finances for 2013.

A household is at risk, according to the CRR, if it's not on track to reach retirement with enough savings to generate an income (from an inflation-adjusted life annuity) that's at least 90% of their target income replacement rate. The target replacement rate varies from 67% for high-income people to 80% for low-income people. The average is 73%.

"To produce this income, the typical household needs to save about 15% of earnings, well above today's actual saving rates. Low-income households need to save less and high-income households more," the authors write.

"For those households currently identified as having a savings shortfall in the National Retirement Risk Index, the necessary increase in saving depends crucially on their age; younger households need to boost their saving by a feasible amount while older households would need to work longer to moderate the need for additional saving."