Retirement Crisis? Not for Educated Couples

By Editorial Staff *Thu, Jan 28, 2016*

A new study shows that about 29% of single women with less than a high school education and 90.2% of married women with at least a college degree education are prepared for retirement in the U.S.

Along with the question of whether a climate crisis exists or not, the less dire question of whether a retirement crisis exists in the U.S. or not has bedeviled pension-minded academics for several years.

The Center for Retirement Research at Boston College has a National Retirement Risk Index that puts 52% of households at risk for seeing “a drop in living standards” in retirement. The Employee Benefit Research Institute and the Investment Company Institute have said that fewer than 20% of older Americans will “run short of money” in retirement, with long-term care expenses the deciding factor for many.

A new study from the RAND Corporation suggests that there is not as broad a crisis as some previous studies have suggested. It also confirms the fact that well-educated married couples rarely end up poor in retirement and that poorly educated single women (not widows) often do. That’s not a new development.

The study, “Measuring Economic Preparation for Retirement: Income versus Consumption,” was written by Michael D. Hurd and Susann Rohwedder of RAND and NETSPAR, Europe’s Network for Studies on Pensions, Ageing and Retirement. They looked at the shortcomings of using the Income Replacement Rate—household income immediately following retirement divided by income immediately before retirement—as a measure of retirement savings adequacy.

Instead, they used measurement techniques that they thought better reflected the availability of defined contribution plan and IRA savings (earlier measurement only looked at Social Security and pensions), that also distinguished between single people and couples in a more realistic way than did previous methods, and that focused on consumption in retirement rather than income.

Earlier methods, for instance, allowed distortions to creep in. Poorer people or singles sometimes looked better prepared for retirement than married or high-income people, but only because their pre-retirement incomes were so much lower and they had less income to replace.

Also, some earlier methods didn't account for the economies of scale enjoyed by couples, or the fact that couples on average have three times as wealth as singles (not twice as much), or the fact that spending and consumption in retirement isn't a direct reflection of wealth or income.

Here's the bottom line. Hurd and Rohwedder determined that when they used the traditional Income Replacement Rate method were used, only 35% of U.S. singles and 34% of couples would have a retirement income at least 70% of their pre-retirement income. If savings in IRAs were taken into account, those numbers would rise to 46% each. Those numbers would suggest a severe retirement crisis.

But the researcher's "consumption-based method," using the same data, found that 59% of single Americans and 81% of couples are prepared for retirement. When sex and educational attainment were factored in, a wider range of outcomes emerged. About 29% of single women with less than a high school education and 90.2% of married women with at least a college degree education were prepared for retirement.

In describing their methodology, Hurd and Rohwedder wrote that "[our] consumption-based measure of economic preparation, takes into account the complexities of the modern post-retirement income stream and the ultimate consequences for the retirement-to-death consumption path…

"[It] finds whether a household has, with high probability, the resources to finance a trajectory of spending from shortly following retirement until death (in the case of a single person) or until death of the surviving spouse (in the case of a couple).

"[It] accounts for uncertainty about the date of death, differential mortality, taxes, spending out of assets, marital status, and the consumption path (across time as well as persons) [as well as] heterogeneity by age, sex, marital status, education, and initial economic conditions."

Does this study mean that Americans don't need to worry about retirement as much as they thought they did? It would probably be wrong to read it that way. The current problem, not addressed in the study, is that Americans are entering retirement with no experience or training in how to distribute their defined contribution savings wisely over their final ten, 20 or 30 years of life, or to how to achieve their goals with the assets they have.