Retirement insecurity rose from 2007 to 2010, academics say

By Editor Test *Thu, Nov 8, 2012*

A retiree with $100,000 will receive $492 per month from an inflation-indexed annuity when the real interest rate is 3% compared to $413 per month when it is 1.5%, according to the Center for Retirement Research at Boston College, in a study sponsored by Prudential.

The National Retirement Risk Index (NRRI) rose to 53% in 2010 from 44% in 2007, according to the Center for Retirement Research (CRR) at Boston College. The ongoing tracking of the NRRI by the CRR is sponsored by Prudential Financial.

The Index calculates the percentage of U.S. households at risk of falling short of maintaining their pre-retirement standard of living in retirement, based on their projected replacement rates (their retirement income as a percentage of pre-retirement income).

As of 2010, the latest report shows, more than half of today's households will fail that test, even if they work to age 65 and annuitize all of their financial assets, including the receipts from a reverse mortgage on their homes.

The financial crisis contributed to an already difficult situation for many pre-retirees, the CRR study shows, through "the combined effect of poor investment returns, lower interest rates, and the continuing rise in Social Security's Full Retirement Age." The report also showed that:

- The length of retirement is increasing [because] the average retirement age hovers at 63 and life expectancy continues to rise.
- Median 401(k)/ IRA balances for households approaching retirement were only $120,000 in 2010, according to the *Survey of Consumer Finances*.
- Asset returns in general, and bond yields in particular, have declined over the past two decades so a given accumulation of retirement assets will yield less income.
- The decline in interest rates through its impact on annuity prices worsens the NRRI. A retiree with $100,000 will receive $492 per month from an inflation-indexed annuity when the real interest rate is 3% compared to $413 per month when it is 1.5%. (The NRRI assumes that retirees will annuitize financial assets, 401(k) balances, and home equity.)