Retirement Income
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You'll need 11 times final salary to retire on: Aon Hewitt

By Editor Test *Wed, Jul 11, 2012*

"The Real Deal" report asserts that Americans aren't saving enough for retirement. But the savings goals might be unrealistic.

A new report from Aon Hewitt warns that even people with secure jobs with great benefits at giant corporations are largely unprepared for retirement. Yet idiosyncrasies in the design of the research make the report difficult to interpret.

At first glance, the study's assertions, based on surveys of 2.2 million plan participants at 78 companies with an average of 15,000 employees each, are somewhat shocking.

The study, called The Real Deal, estimates, for instance, that, including the present value of their lifetime Social Security benefits, individuals will need savings worth 15.9 times their final salaries at age 65 in order to maintain their accustomed living standard in retirement.

A person with a final salary of $100,000, the study suggests, needs to have saved the equivalent of $1.1 million by retirement in order to maintain his or her standard of living through life expectancy (age 87 for men and age for women). The other $590,000 in retirement wealth would come from the present value of Social Security benefits.

But the study shows that even among workers who retire at age 65 after spending their entire career at a large company with a defined benefit plan and a defined contribution plan with an employer matching contribution, only about 29% will have saved that much.

The average full-career employee will have saved only about 8.8 times his or her salary by retirement, the study said. And if all employees at the 78 companies are counted, only about 15% "have positioned themselves to have sufficient resources to meet their needs if they retire at 65."

The study acknowledges that if retirement readiness is so weak among the most secure workers at the country's most generous companies, it must be much worse among workers at companies with no DB plan and no employer match, let alone the half of all workers whose companies don't offer retirement plans at all.

"Results for the general U.S. population would likely reveal even larger retirement income shortfalls, compared to the results of this study. The Real Deal study uses data from large employers who generally provide larger retirement benefits and more robust employee communication about the need for retirement savings than smaller employers."

But the study also leaves the reader wondering if Aon Hewitt might be setting the bar for retirement readiness too high.

One of the assumptions of the study is that individuals will need to replace 85% of their final salary each year in retirement, which might be open to debate—especially if the mortgage is paid off and the kids are grown. Perhaps most oddly, the study offers findings only for individuals, not couples, and doesn’t consider the possibility that two breadwinners might be contributing to a household’s total retirement savings.

The study concludes with the suggestion that higher savings rates are achievable through auto-enrollment, auto-escalation of contributions and better monitoring of employee progress and with the statement that “ideal solutions [to the savings shortfalls] will improve outcomes with little or no increase in employer costs.” Aon Hewitt was asked to comment but did not return phone messages before deadline.