

# Four Views of Retirement Preparation

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## A fundamental question

**What fraction of the American population is (or will be) adequately prepared for retirement?**

- a. 50%
- b. 65%
- c. 70%
- d. 80%
- e. 95%
- f. All of the above

**Welcome to the retirement security debate in America!**

# A time-value-of-money problem

All adequacy models are, in the end, a time-value-of-money problem, projecting today into the future

POPULATION

There are usually two (or segments thereof)

DATA

Some very good; some surprisingly bad

FORECAST  
METHODOLOGY

Many plausible assumptions; a few heroic

MEASURE OF  
OUTCOMES

Relative v. absolute

# Four papers, four questions

## Working-age Americans

1. (NRRI) Will working-age Americans be ready for retirement at age 65?  
*...40+ year forecast*
2. (EBRI) Will working-age Americans have enough to pay for living expenses and health care through retirement?  
*...70+ year forecast*

## Older Americans

3. (H&R) Do older Americans have enough to finance their current standard of living for the rest of their lives?  
*...+30+ year forecast*
4. (S&S) Have older Americans made economically reasonable tradeoffs between savings and consumption throughout their lives?  
*...+70 year forecast*

# Semi-heroic assumptions

## All studies

- The forecast horizons involved suggest caution in interpretation

## NRRI

- Beautiful data on wealth – but not so much on savings
- So how to predict future wealth?
- An imperfect answer: “Your (grand)father’s retirement”

## S&S

- Beautiful lifecycle model – taking Social Security lifetime earnings, estimating “optimal” future wealth, and comparing with actual
- Conclusion: most Americans optimize the choices they’ve faced
- But is playing well with the cards you are dealt—is that what we mean by retirement security?

## One other major assumption – how we spend in retirement

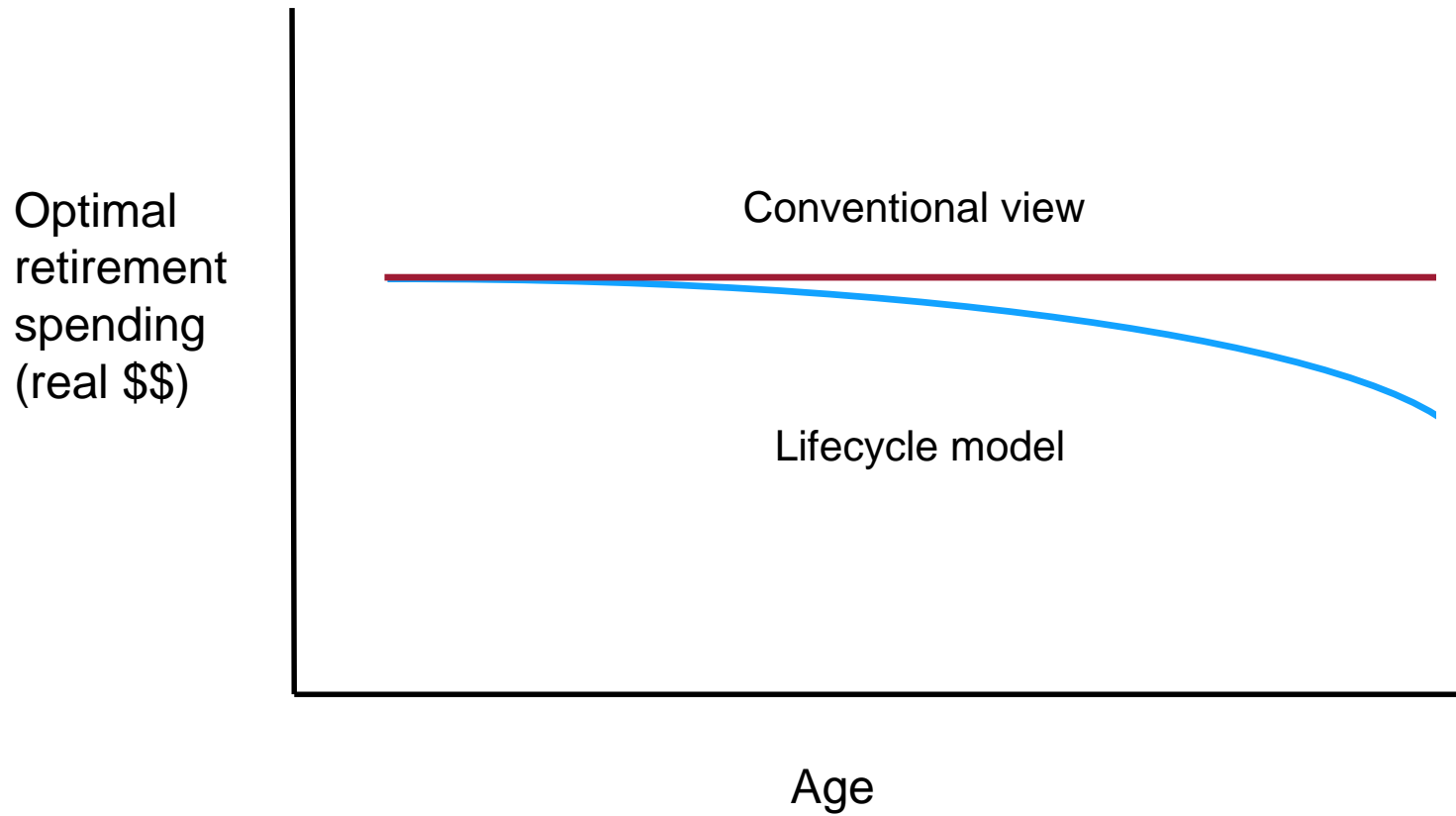
Pragmatists View

I need to maintain my standard of living in retirement

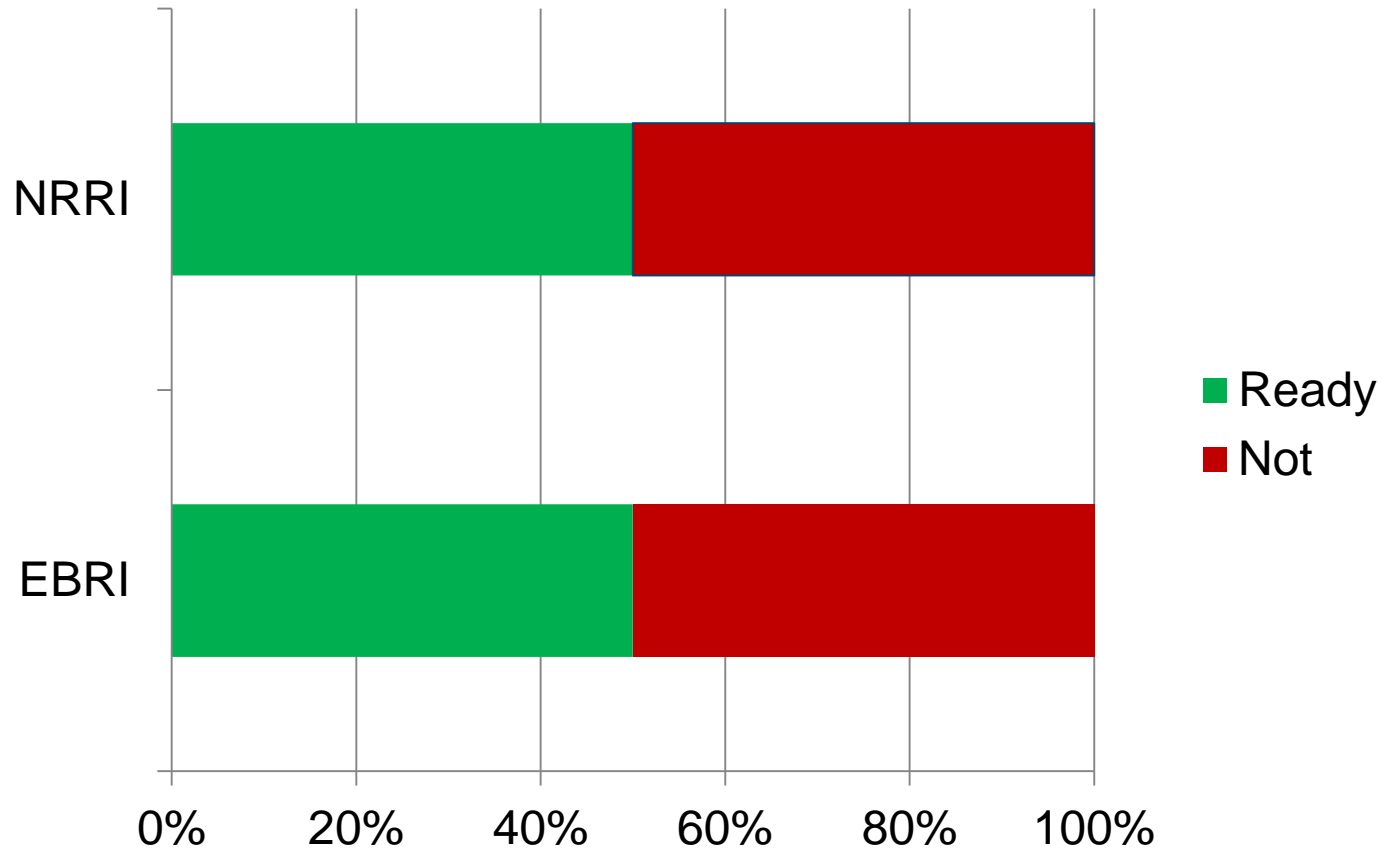
Economists View

I should spend a bit more today and less tomorrow – given the risk of dying

## Two different views



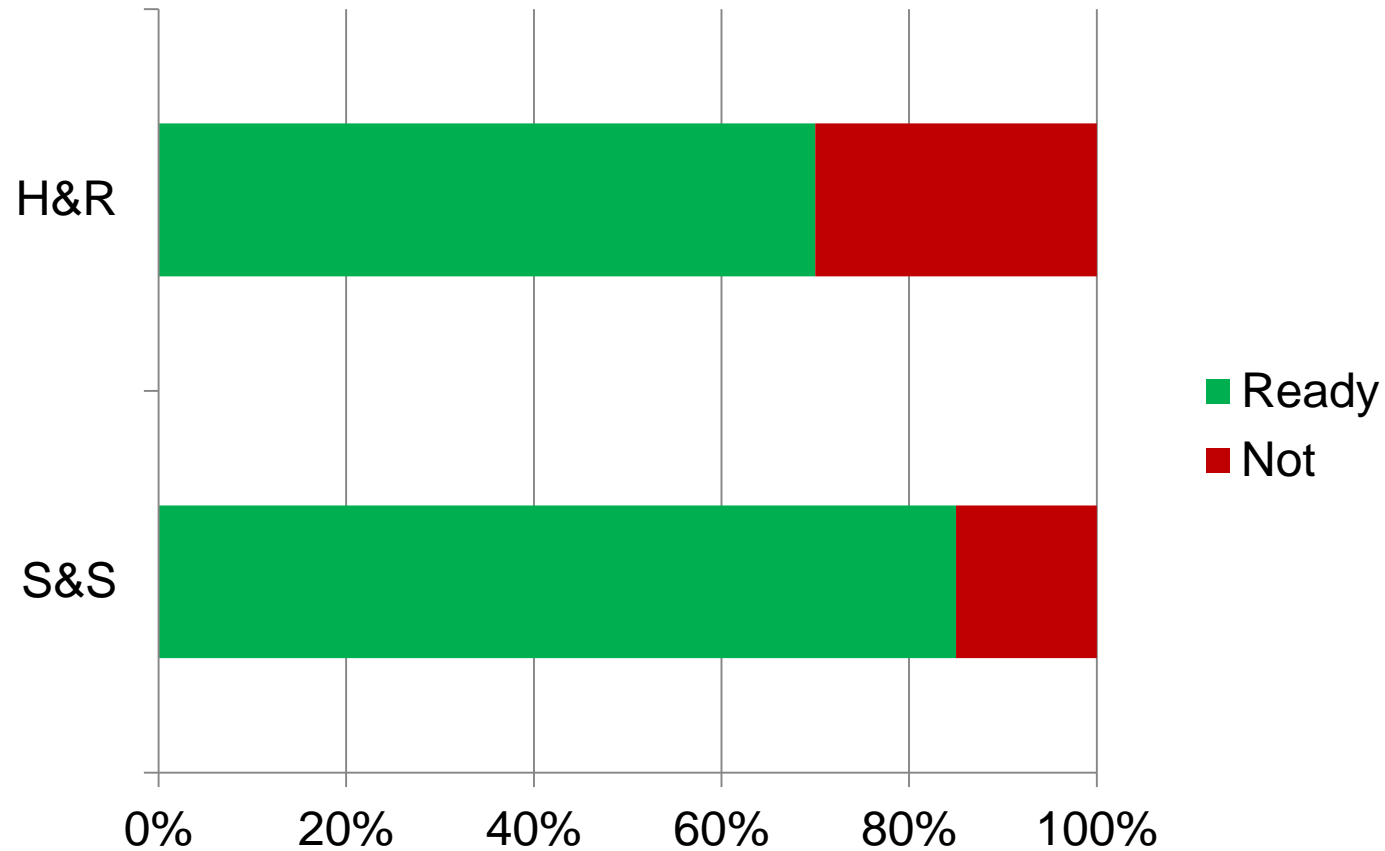
## Working-age Americans: two models, one result (with rounding)



Source: NRRI, EBRI estimates with rounding.

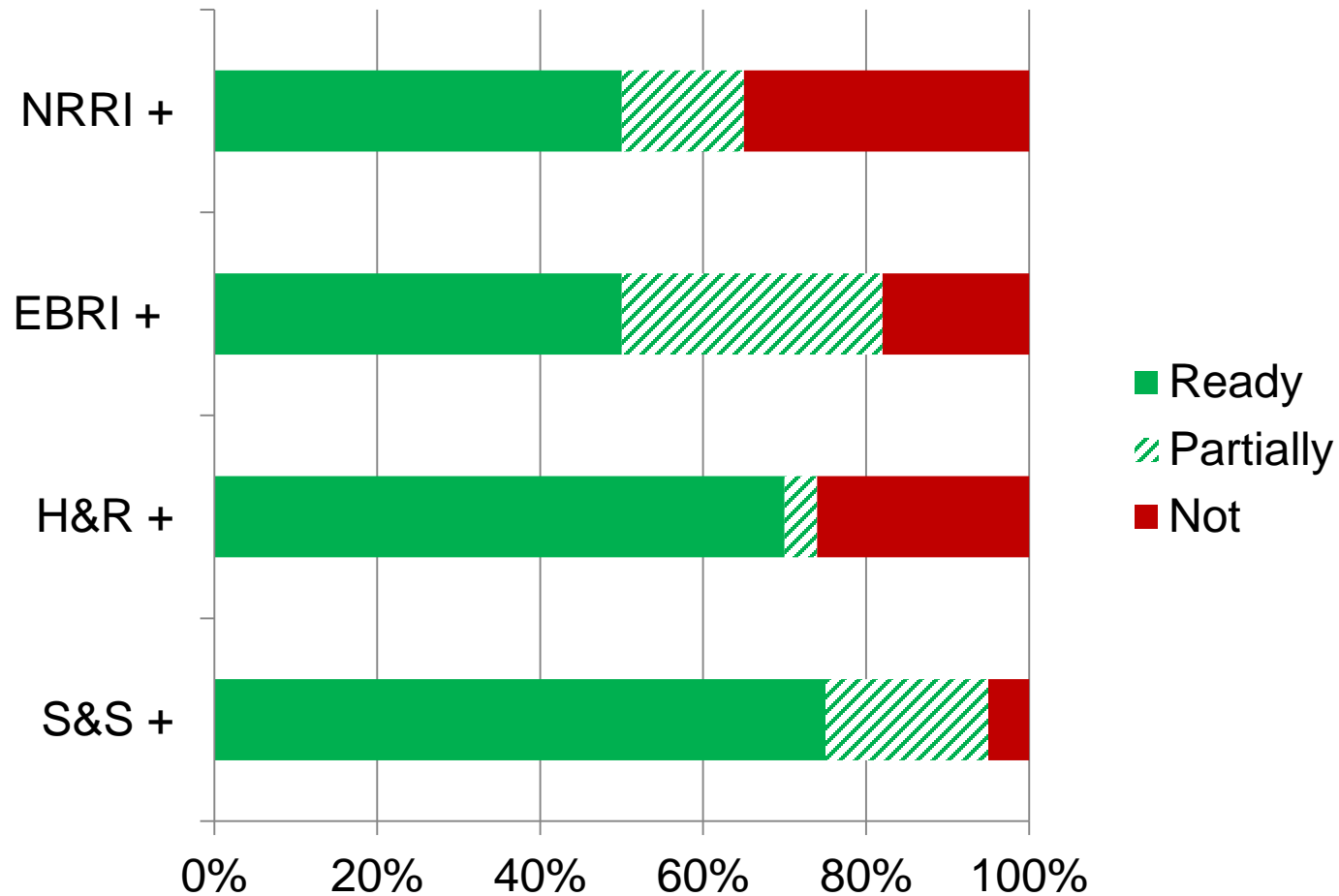


## Older Americans – two models, somewhat varied results



Source: H&R, S&S estimates with rounding.

## Sensitivity analysis—relaxing the outcome measure



Source: estimates with rounding (author calculations)

## What to conclude?

1. **At least 50% of Americans are (or will be) prepared for retirement**
  - We can reject the hypothesis that “most or all Americans are ill prepared”
  - Who are these households?
    - Higher income and better educated
    - Access and use of workplace retirement plans
    - Better planning skills (low discounters)
  - All of these characteristics contribute to ability to accumulate private savings/benefits, which is a precondition of retirement security in the U.S.

## What to conclude?

### 2. At least 20% of Americans are ill-prepared for retirement

- The formal range of estimates is probably anywhere from 5% to 35%. Let's use 20% as a naïve estimate.
- Who are these households?
  - Low income and lower levels of education
  - No access or limited use to workplace retirement plans
  - Perhaps those with low planning skills
- Financial vulnerability in one's working years persists into retirement (Haveman, Holden, Wolfe, Romanov, 2007)
- One common point of agreement is that, for this group, improving adequacy is likely to come through public programs

## What to conclude?

### 3. The question remains—what about the other 30%?

- Are they ill-prepared, fully prepared—or something in between?
- Who are these households? Certainly lower income and education
- Questions remain about the interplay of income, education, retirement plan access and planning skills
  - Will recent innovations in private DC design reach this group?
  - Is there sufficient coverage?
  - What is the relative reach of private v. public action to improve adequacy?

## A final observation

- Let's move beyond “bi-polar” characterizations of retirement security
- It's better to think in a more differentiated way—especially given wide differences in lifetime incomes, education, planning skills, and the resultant accumulation of private wealth
- More attention should focus on defining the size of the ill-prepared and partially prepared groups, and the relative role that private versus public resources should be expected to play

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