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## Study: 43% won't have enough in retirement

A new risk index suggests many won't be able to afford their current lifestyle in retirement, but a little extra work or savings would help a lot.

By **Jeanne Sahadi**, CNNMoney.com senior writer

June 6, 2006: 11:15 AM EDT

NEW YORK (CNNMoney.com) – A new retirement risk index released Tuesday estimates that 43 percent of working-age households are not likely to have enough retirement income to replicate their current standard of living.

The Center for Retirement Research (CRR) at Boston College created the index and defines "at risk" to mean those households projected to fall at least 10 percent short of their income target in retirement.

The organization assumed a base target of 73 percent of one's pre-retirement income for all households. In other words, a household with \$100,000 in annual income before retirement should be able to generate \$73,000 from all sources, including savings, Social Security and pensions. Targets, however, vary according to marital status, gender and income.

Those most at risk of missing their goal, according to CRR:

- Low-income Gen Xers (born between 1965 and 1972): 60 percent are at risk of having insufficient funds in retirement.
- Low-income late boomers (born 1955-1964): 54% are at risk.
- Middle-income GenXers: 46% are at risk.
- Two-earner GenX couples: 53% at risk, since they often receive less generous Social Security benefits than one-earner couples.
- Single GenX women: 52% at risk, since they are more likely to be in the bottom third of income earners.

But those percentages could be reduced by doing one of two things: "Even relatively modest adjustments - working two extra years or saving 3 percent more - can substantially improve retirement security," said CRR director Alicia H. Munnell in a statement.

For example, according to CRR's calculations, Gen Xers who save an additional 3 percent of income every year can reduce the percentage of GenX households at risk by 11 percentage points.

### Why risk rates are high

There are several reasons so many working-age households are at risk, CRR notes.

- Life expectancy is on the rise.
- Defined-benefit pensions are on the decline.

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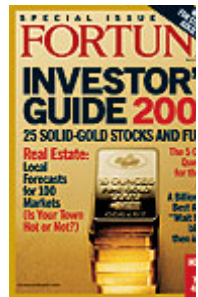
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- Social Security benefits will replace a smaller percentage of one's pre-retirement income as the age at which workers become eligible for full benefits rises from 65 to 67. By 2030, when the first Gen Xers turn 65, Social Security is projected to cover 33 percent of pre-retirement income after deducting payments for Medicare Part B premiums. That's down from a 40 percent replacement rate in 2002.

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- 401(k) balances are not high. The median balance is \$60,000 among households nearing retirement.
- Most workers don't save for retirement outside of their 401(k)s.

In arriving at their risk assessment, CRR researchers assumed that in retirement you will need less income than you do while working because your taxes are likely to be lower, you no longer will need to save for retirement and your mortgage is more likely to be paid off.

They further assumed workers would retire at 65, though realistically many may retire before then. The average retirement age today is 63 for men, and 62 for women.

Lastly, they assumed retirees would annuitize savings, and tap their housing wealth through a reverse mortgage. Neither practice is common, but the CRR made the assumptions since both are ways to maximize how far one's resources can stretch.

CRR researchers did not, however, factor in the costs of a potential health care crisis for two reasons: the increase in healthcare costs is hard to predict and only a percentage of households will experience a catastrophic health situation that will throw off finances considerably.

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