Myths and Realities about Retirement Preparedness

May 2006

CENTER FOR RETIREMENT RESEARCH AT BOSTON COLLEGE

- **Myth:** People need to replace 100 percent of their pre-retirement income in retirement.
  Reality: Most people need between 65 to 85 percent to be secure.

- **Myth:** People will have enough resources to meet this need when they retire.
  Reality: Almost 45 percent of working-age households are at risk of failing to meet this objective, according to the Center's new National Retirement Risk Index.

- **Myth:** Younger workers will be better prepared in retirement than Baby Boomers.
  Reality: Younger workers are more vulnerable — nearly half of households are at risk.

- **Myth:** Social Security will still replace 42 percent of an average worker's earnings.
  Reality: Net Social Security replacement rates will drop to 30 percent by 2030, adjusting for the rising Normal Retirement Age, taxation of benefits, and higher Medicare premiums.

- **Myth:** Although 401(k)s are the most common type of employer-sponsored pension, traditional defined benefit plans still cover a large share of the workforce.
  Reality: In 2003, only 10 percent of all private sector workers with pensions were covered solely by a defined benefit plan.

- **Myth:** 401(k)s have allowed workers to save significant amounts for retirement.
  Reality: In 2004, the typical household head approaching retirement had only $60,000 in 401(k) and IRA accounts, which translates into less than $400 per month in retirement.

- **Myth:** If today's workers save as much relative to their income as their parents, their retirement will be secure.
  Reality: Current workers must save more because of the demise of traditional pensions, rising longevity, soaring health care costs, and falling asset returns.

- **Myth:** People can rely on the equity in their house to finance their retirement.
  Reality: Retirees need somewhere to live, so they can tap only a portion of their house's value with a reverse mortgage — about 45 percent at current interest rates and less if rates rise from today's low levels.

- **Myth:** It's too hard to save enough for retirement.
  Reality: If workers consistently set aside 6 percent of their paychecks (with a 3 percent employer match), invest prudently, and leave the money alone, they should have enough.

- **Myth:** Given the trends in retirement income, people will have to work until they drop.
  Reality: Working to age 67 — and not drawing income from Social Security or 401(k)s — would allow most people to have a secure retirement.

For more information, visit http://www.bc.edu/crr or contact Andrew Eschtruth at eschtrut@bc.edu or (617) 552-1729.