The NRRI Shows Almost Half of Today's Working Households Are at Risk

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MarketWatch Blog by Alicia H. Munnell

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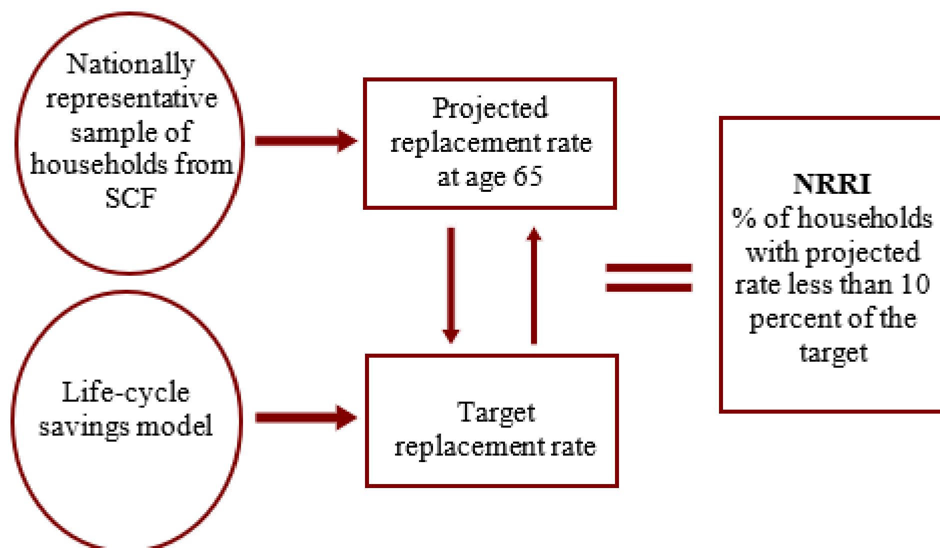
Despite extensive changes in platform, methodology, and data, the picture remains the same.

The Center first released its National Retirement Risk Index (NRRI) in 2006. The goal was to summarize in a single number the extent to which today's workers would be prepared for retirement. The Index uses the Federal Reserve's triennial *Survey of Consumer Finances* to compare projected replacement rates – retirement income as a percentage of pre-retirement income – with target rates that would allow households to maintain their living standard. Those households for which targets exceed projected by more than 10 percent are characterized as falling short.

Figure 1. *Overview of the National Retirement Risk Index*



Source: Authors' illustration.

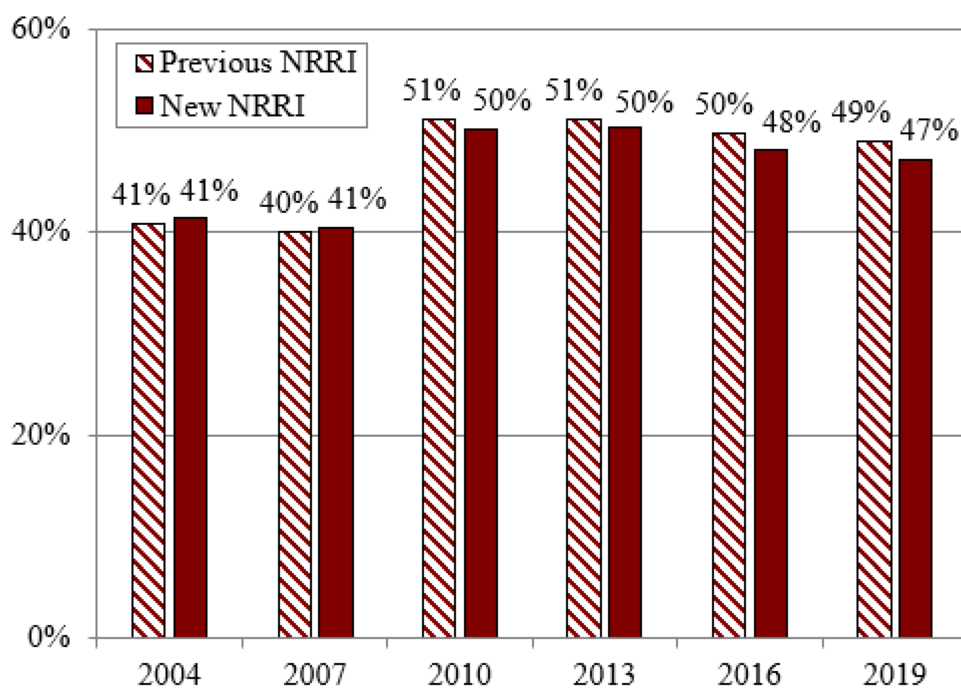
After nearly two decades of updating data and modifying the program, the index was sorely in need of clean up. Candidly, its innards were a mess. My colleague Yimeng Yin worked on the project solidly for nine months. In

addition to updating data and moving the codebase from *Stata* and Excel spreadsheets to Python, we decided on four major improvements:

- Shifting the basis for projecting wealth-to-income from means to medians, which makes the wealth projections at retirement better reflect the observed distributions.
- Projecting financial assets and non-mortgage debt separately, allowing for more in-depth analysis as well as counterfactual analysis focusing on borrowing.
- Using much richer household characteristics for calculating target replacement rates.
- Incorporating the Earned Income Tax Credit in replacement rate calculations to better capture the income these households will need to replace in retirement.

Despite the extensive changes in data and methodology, the overall level and time pattern of the Index remain the same as before (see Figure2). Thus, the most important finding still holds: about half of working-age households will not be able to maintain their pre-retirement living standard.

Figure 2. *The National Retirement Risk Index, 2004-2019*



Sources: Authors' calculations. Previous NRRI numbers are from Munnell, Chen, and Siliciano (2021).

Moreover, the pattern continues to reflect the health of the economy. The Index increased substantially from 2007 to 2010 during the Great Recession, and then declined a bit from 2013 to 2019 as the economy enjoyed low unemployment, rising wages, strong stock market growth, and rising housing prices. These improvements were modest due to some countervailing longer-term trends – such as the gradual rise in Social Security's Full Retirement Age (FRA) and the continued decline of interest rates – which made it more difficult for households to achieve retirement readiness.

When viewed by wealth, households' retirement preparedness shows a sensible pattern, with a large difference between the top and bottom wealth groups (see Table 1).

Table 3. *Percentage of Households "At Risk" at Age 65 by Wealth Group, 2004, 2010, and 2019*

Wealth group	2004	2010	2019
All	41%	50%	47%
Low	64	75	73
Middle	34	47	40
High	26	28	28

Source: Authors' calculations.

The bottom line is that – no matter how much the methodology is modified and the data updated – the NRRI continues to show a large share of the households will not be able to maintain their pre-retirement standard of living once they retire. This is not a time to even contemplate cutting back on Social Security benefits. And it is the time to push for universal coverage so that every household has some ability to save some additional money.