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Executive Summary

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HOW ECONOMIC SECURITY CHANGES DURING RETIREMENT

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A number of studies have analyzed the economic security of retirees at various ages. Fewer studies have followed older adults throughout their retirement to see how their economic resources change as they grow older. Although the wealth accumulated at retirement may be sufficient to maintain living standards initially, it may not be enough to support consumption throughout retirement. Life-changing events during retirement, such as the onset of poor health or the death of a spouse, can cause unexpected shocks to wealth and income. In addition, private pension income can erode over time with inflation, because most plans (unlike Social Security) do not peg benefits to changes in the cost of living. As workers plan for retirement and policymakers debate Social Security, health insurance, and long-term care insurance, it is important to recognize the factors associated with changes in economic security during retirement and their potential impact on retirees' economic well-being.

This study uses projections of the major sources of retirement wealth and income from the Social Security Administration's Model of Income in the Near Term (MINT) to analyze how economic security is expected to change for current and future retirees between age 67 (when most have stopped working) and age 80. The analysis examines how the level and composition of their wealth and income change during this time period. It also identifies older adults whose economic situations have improved and those whose situations have worsened using a number of different thresholds for what is considered sufficient for living a comfortable retirement. The study concludes by measuring the extent to which key life-changing events relate to retirement well-being at ages 67 and 80.

Main findings include the following:

- Typical older adults experience a decline in retirement wealth and income between ages 67 and 80. Counting only financial wealth, housing wealth, and retirement accounts, family wealth is projected to decline by 6-8 percent and family income is projected to decline by 8-12 percent over this period. As a result, median replacement rates are projected to decline and the share of older adults with incomes less than 45 percent of the national average wage is projected to increase.

- Between 42-44 percent of retirees will have significantly less income at age 80 than they did at age 67, with the median decrease in income being $16,000 for current retirees and $23,000 for boomers. Older adults who are married or working at 67 are most likely to experience declines in income between ages 67 and 80. In contrast, retirees in the lowest income quintile at age 67 are least likely to be worse off 13 years later.

- Some older adults, however, will be better off later in retirement. Between 41-43 percent of retirees will have significantly more income at age 80 than they did at age 67, with the median increase in income being $14,000 for current retirees and $17,000 for boomers. Older adults who are male or not working at age 67 are most likely to experience increases in income between ages 67 and 80.

- At least some of the change in economic well-being during retirement is related to changes in marital status, health status, living arrangements, and work status. For example, the median income of current retirees is projected to decline from $52,000 to $33,000 for married adults who become widowed or divorced. In contrast, the median income of current retirees is projected to increase from $30,000 to $49,000 for single adults who marry (a small share of the population).

- Finally, boomer retirees are projected to have higher wealth and income than current retirees at both ages 67 and 80. Although the magnitude of change in resources between ages 67 and 80 is generally larger for boomers than for current retirees, many of the observed relationships are similar across cohorts.

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