

Center for Retirement Research at Boston College
“National Retirement Risk Index”
Video Transcript

Andy Eschtruth: “Hi, I’m Andy Eschtruth. I’m the communications director with the Center for Retirement Research at Boston College and I’m here today with Alicia Munnell, the Center’s director, to discuss her latest research on the National Retirement Risk Index. And the first question I have for you is, what is the National Retirement Risk Index?”

Alicia Munnell: “I think that’s a really good place to start. What is the National Retirement Risk Index? It is a single number that captures the percent of households, who are currently working, who are not going to be able to maintain their standard of living once they stop working in retirement.”

Eschtruth: “The Center has been conducting research in this area for a number of years, I am wondering if you could tell us about how the index trends have changed over time.”

Munnell: “The number at risk has increased overtime. In our most recent measure about half of today’s working households are not going to be able to support themselves once they stop working, and I think that there are a number of reasons for that. The first is that people are living longer. So, however much money they have when they start retirement, they have to stretch that over a longer period of time. The second reason is Social Security. Social Security benefits relative to income before retirement is less now and is going to be less in the future than it was in the past. The third factor is interest rates, because whatever pile people have at today’s low rates it is very hard to produce any kind of significant retirement income.”

Eschtruth: “Can you tell us what question the latest research addresses and why that question is important?”

Munnell: “Our most recent question was how much longer are people going to have to work to have a secure retirement? Now, we’ve done exercises before that showed if you work longer, the percent at risk goes down. But we were asking a very specific question this time: how much longer? How many years would the average person have to work so that everybody could have a secure retirement? This, as you know, is one of the major themes that we are interested in because working longer is really the key to security in retirement. It does three good things. One, Social Security benefits go up substantially if you claim them later. Two, the longer you wait to retire the more chance you have for your 401(k) to build up. And three, you shorten the period over which you have to support yourself in retirement. So, we know that’s the answer, and the question is how much longer?”

Eschtruth: “Alicia, how has the index been adapted for this most recent research?”

Munnell: “Let me just step back and explain the index, and then I will be able to explain how it has been adapted for this exercise. The index looks at two numbers. One is how much income are people going to have as a percent of their preretirement earnings, once they stop working. So that’s one number, projected replacement rates is the term we use. On the other hand, we calculate a target replacement rate, that’s income relative to preretirement earnings. And what we do is we compare those two numbers at age 65 and determine whether people are at risk or not. For this current exercise, we didn’t just calculate how much money people would have at age 65, we calculated it for every age between 50 and 90. We

still have the target, and so for each age we compare the projected with the target, and the age at which the projected equals the target, we said that's the age at which they are ready for retirement.”

Eschtruth: “So Americans are very anxious about their retirement security and the question about working longer. The question that everyone wants to know the answer to is how much longer will they need to work?”

Munnell: “I think there's lots of anxiety if you talk to people about this people will say ‘yes, I understand I should work longer, but I don't want to have to work until I am 90.’ I think the best answer to the question of how much longer people are going to have to work, is about five years, and let me just tell you why I say that. According to our calculations, about half of households will be prepared at 65. By age 70, that percentage rises to 86 percent. So, the way I view it is, an extra five years, the bulk of households will be able to maintain their preretirement standard of living.”

Eschtruth: “For people who are concerned about their ability to work longer or the feasibility of this strategy, are there any options available that could also help improve their retirement preparedness?”

Munnell: “I think in the back of most people's mind is the notion we will just save more. And, I think that's true if you are talking about younger people, because if they put aside money in their 20s and 30s, they got decades of compound interest to really enhance their pile. If you are talking about older people, it's really very hard to increase your savings enough to give you retirement security. So I think what's going to happen is that people will try to save some more and then they'll also have to work longer and it'll be some combination of the two. But working until 90 is not the answer.”

Eschtruth: “Alicia, this conversation has been very insightful. Thank you so much for your time.”

Munnell: “My pleasure.”