# Am I Prepared for Retirement? Most of Us Know the Right Answer.

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**MarketWatch Blog** by Alicia H. Munnell

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*The bad news: Almost half are not prepared.*

In a **recent study**, we used our updated National Retirement Risk Index (NRRI) to see whether households have a good sense of their own retirement preparedness – do their expectations match the reality they face? That is, do households at risk know they are at risk? Understanding households' self-assessed retirement preparedness is important because households that are not worried enough will not save enough and households that are too worried will unnecessarily sacrifice their pre-retirement standard of living.

The *Survey of Consumer Finances* (SCF), which is used to construct the NRRI, asks each household to rate the adequacy of its anticipated retirement income. The question's response scale is from one to five, with one being "totally inadequate," three being "enough to maintain living standards," and five being "very satisfactory." Thus, any household that answers one or two considers itself to be at risk.

We compared each household's self-assessed risk with the household's estimated risk from the NRRI. The results show that for 57 percent of households their self-assessment agrees with the NRRI (Quadrants I and IV in Table 1); 43 percent of households get it wrong (see the shaded portions). Fifteen percent (Quadrant II) are “too worried” – they report being inadequately prepared but the NRRI says that they are not at risk.  Twenty-eight percent (Quadrant III) are “not worried enough.”

Table 1. *Households “At Risk” and “Not at Risk” According to the NRRI and Individual Responses, 2019*

| Household response | NRRI | |
|---|---|---|
| | At risk | Not at risk |
| At risk | 19% (Quadrant I) | 15% (Quadrant II) |
| Not at risk | 28% (Quadrant III) | 38% (Quadrant IV) |

*Source:* Anqi Chen, Yimeng Yin, and Alicia Munnell. 2023. “How Well Do People Perceive Their Retirement Preparedness?” *Issue in Brief* 23-12. Center for Retirement Research at Boston College.

The question is why do households get it wrong?  Results by income show that high-income households – perhaps overreacting to the impact of the strong economy on housing and stock prices during the 2013-2019 period – are the most likely to be “not worried enough” and low-income households are the most likely to be “too worried” (see Table 2).

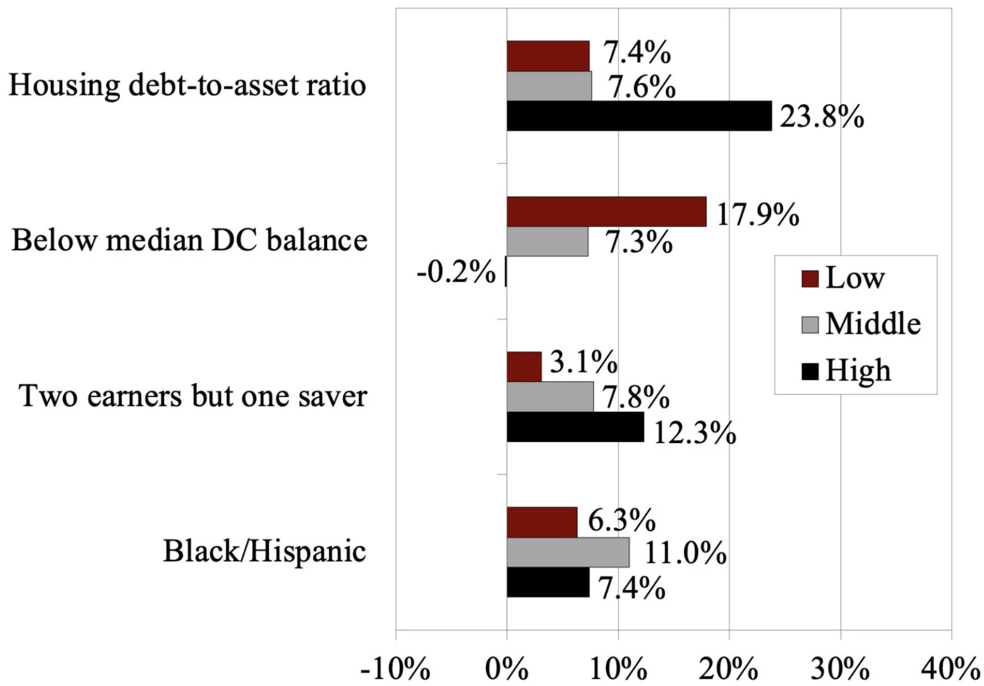
Table 2. *Percentage of Households that Are "Not Worried Enough" or "Too Worried," by Income Group, 2019*

| Income group | "Not worried enough" | "Too worried" |
|---|---|---|
| Low | 26% | 20% |
| Middle | 26 | 14 |
| High | 32 | 9 |
| All | 28% | 15% |

*Source:* Anqi Chen, Yimeng Yin, and Alicia Munnell. 2023. "How Well Do People Perceive Their Retirement Preparedness?" *Issue in Brief* 23-12. Center for Retirement Research at Boston College.

The analysis used regressions for each income group to explain the relationship between various factors and the probability of households ending up being "not worried enough' or "too worried." Households that were overly optimistic about the economic recovery or overestimated how much income their assets could provide were more likely to be "not worried enough." Their overconfidence may lead them to underestimate possible risks. Therefore, it is not surprising that households with higher housing debt-to-asset ratios, relatively low asset balances in 401(k)s and other defined contribution (DC) plans, and two earners but only one saver were more likely to be "not worried enough" (see Figure 1).

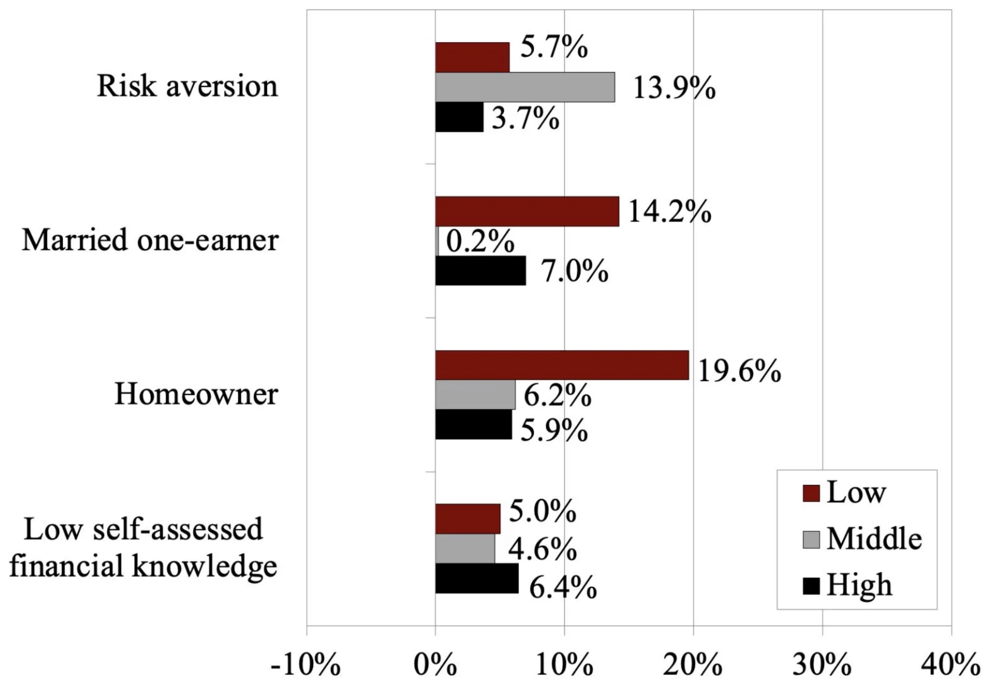
Figure 1. *Effect of Selected Factors on Probability of Being "Not Worried Enough," by Income Group*




*Source:* Anqi Chen, Yimeng Yin, and Alicia Munnell. 2023. "How Well Do People Perceive Their Retirement Preparedness?" *Issue in Brief* 23-12. Center for Retirement Research at Boston College.

Unlike overly optimistic households, those who are "too worried" are not aware of how much income they will have in retirement and perhaps have less optimism in the asset markets.  Characteristics that capture these factors – such as risk aversion, married one-earner households, homeowner, and low self-assessed financial knowledge – predicted households' likelihood of being "too worried" (see Figure 2).

Figure 2. *Effect of Selected Factors on Probability of Being "Too Worried," by Income Group*

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The bottom line is that 47 percent of today's working households are at risk – 19 percent know it and 28 percent don't. Both groups need help.

The key message, however, is nearly three-fifths of households have a good gut sense of their financial situation and, in the aggregate, households' self-assessments closely mirror the results produced by the NRRI. These findings suggest that inadequate retirement preparedness is indeed a widespread problem.