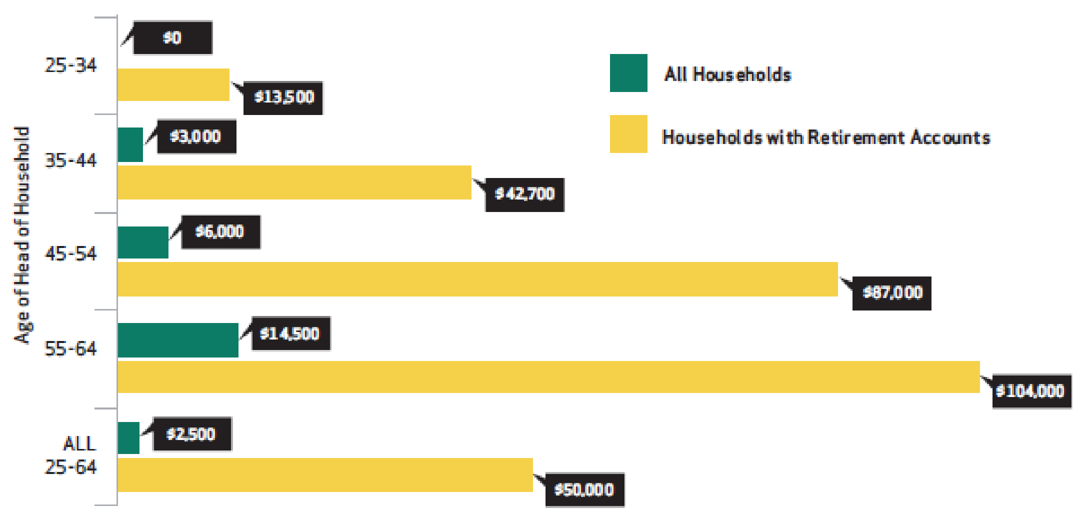
Back to Retirement Basics: What Should I Save & What is it Worth?

One of the difficulties when comparing traditional pensions to savings-based retirement plans is finding a way to evaluate the value of lifetime income and compare that to a lump sum amount. This paper is a short primer on understanding the difficult questions associated with do-it-yourself retirement plans, like '*What is my number?*' and '*How much income will my savings provide in retirement?*'

After many years when workers typically contributed 3-6% (if they had access to a plan at all), and employers typically matched 0-4%, [the first 401k generation is now ill prepared for retirement].

Figure 8: **Typical Working-Age Household Has Only $2,500 in Retirement Account Assets; Typical Near-Retirement Household Has Only $14,500**

Median retirement account balances, households with retirement accounts vs. contingent median account balance for all households, 2013



Source: Authors' analysis of 2013 SCF.

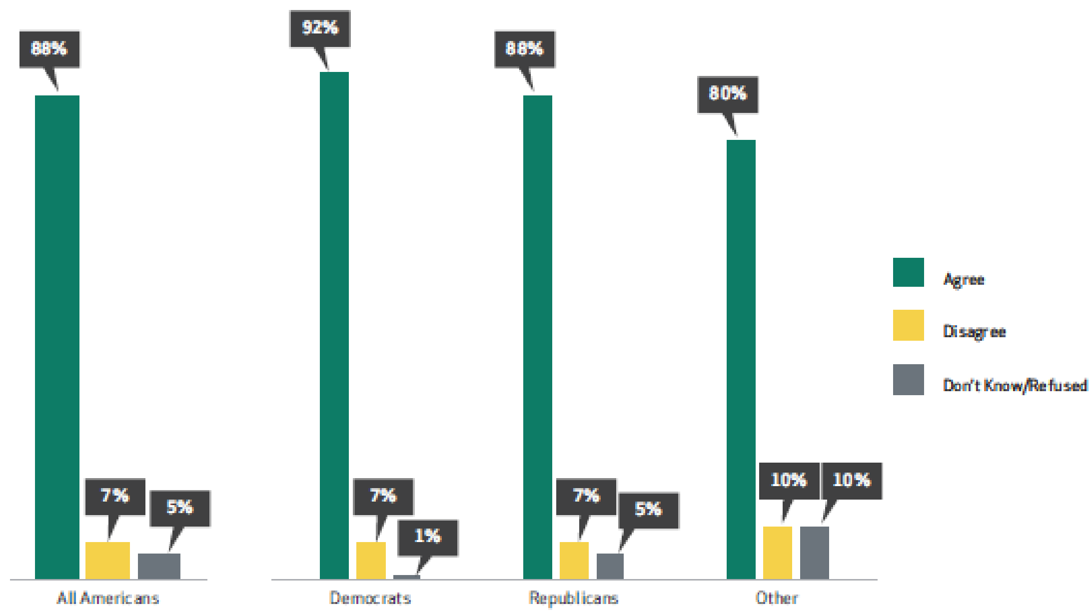
Not only are the average account balances inadequate, but Fidelity notes that "the average 65-year-old couple retiring today [will spend about $220,000 on health-care costs alone]." Worse, health costs have continued to climb for decades.

There are plenty of culprits, the inefficiency of the 401k, hardship withdraws, and lack of knowing just how much retirement will cost. Nevertheless, the basic conclusion is these do-it-yourself retirement systems make it incredibly costly and difficult for individuals to navigate (even for workers with access to Social Security).

[Americans are aware](#) and concerned about the retirement crisis, too:

Figure 2: **Across party lines, Americans feel strongly that the nation faces a retirement crisis.**

To what extent do you agree or disagree with the following statement: America is facing a retirement crisis.



In response to the failure of the 401k, more financial firms are recommending people save much more. For instance, Stephen Utkus, Principal and Director in the Vanguard Center for Retirement Research says "people with a household income of between $50,000 and $100,000 should be saving 12% to 15%." This recommendation is for workers who are covered by Social Security.

Decades into this experiment, there's no straight answer to the most basic question: How much do I need?

The 4% Rule No Longer Holds

For many years, it was common for advisors to refer to the 4% rule. This basically meant it would take $1 million to produce inflation-adjusted annual income of $40,000 (annual withdraws starting at 4% of savings, and increases with inflation). CNN Money notes that "Historically, if you followed this regimen, you had a high likelihood -- roughly a 90% chance -- that your money would last at least 30 years, long enough to carry most people through retirement." But, the era of low interest rates means even that advice is no longer working.

What it All Means

If you were retiring today, with a final salary of $50,000 and no Social Security, you'd need to have saved upwards of $1million dollars to have an opportunity for life income equal to roughly 80% of your pay level at retirement – though your health insurance situation could require even more. Still, there are many scenarios in which these projections fail to materialize.

For a 25-year old hired today, that target would be many times higher, as 40 years of inflation will erode the value of those dollars and you'd expect their pay level (and income needs) to be much higher in 2057.

That's why many are now arguing that 401k savers should be saving 15% of their pay – even if they will be receiving Social Security. For workers who are not covered by Social Security (which costs 12.4% of pay, split evenly), like Alaska's public employees, the savings rate would have to be much higher.

Please contact Bailey Childers, bchilders@protectpensions.org, with any questions.