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Retirement Savings by the Numbers

PBS.org recently compiled a number of retirement savings statistics from various studies. As someone who has reviewed hundreds of such studies, I have to admit the PBS figures caught even me off guard, and not in a positive way! See if you are as shocked as I was by some of the following statistics:

1. 30%

That's the percentage of all workers have \$0.00 in retirement savings. You read that correctly, that's zero, zip, nada, not one penny. So nearly a third of people with jobs have no retirement savings whatsoever! Granted, individuals with low incomes who fall into this category will have a significant portion of their incomes replaced by Social Security; no doubt, however, some higher-income workers in that 30% do not fall into that category. Regardless, it is a strong measure of the ineffectiveness of the current retirement plan system for retirement plan accumulations. At the other end of the spectrum, million-dollar retirement account balances are a true rarity, comprising less than one percent of all account balances at one leading retirement plan provider.

2. 40%

Forty percent of all workers are currently not saving for retirement. Though less shocking than the retirement savings figure, this number might be even more impactful. Suppose this group represented the bottom 40% of worker incomes (and it doesn't). A significant number of those individuals would not have a sufficient portion of their retirement covered by Social Security to retire, so additional retirement savings would be critical for them. Note that this is just an aggregate figure; the amounts that I have come across at individual organizations, especially nonprofits, are often significantly higher.

3. \$250,000

That is the average savings shortfall a U.S. household will have at retirement. This figure actually includes Social Security. Two related statistics primary contribute to this gap. The first is Social Security, which is replacing less income for retirees (28% of preretirement income for a 2010 retiree, on average, versus 39% for a 2002 retiree). Second, defined benefit pension plans, which used to pick up some of the retirement savings slack, are disappearing, down from covering 39% of workers in 1980 to 15% in 2010.



4. \$52,000

That amount is what the average household needs in after-tax income for retirement (the majority is not saving enough to achieve this income, hence the shortfall figure in 3, above). While Social Security will provide some of this income, the rest will be an accumulation of retirement savings, including voluntary and employer-provided retirement savings, if any exist. I am no math wizard, but even with Social Security, at least \$1 million in accumulated retirement savings would be needed to provide this average household after-tax income. As indicated above, at this point, an extremely small portion of workers achieve such a savings.

5. 9.6%

This percentage is the smallest recommended retirement savings rate for workers, taking into account Social Security. This figure may sound daunting, but keep in mind that it does not consider employer contributions to a retirement plan. For example, if your employer contribution is 5%, you will only need to save 4.6%. Since this is an average, the percentage is likely to be even lower for younger workers, and more for older workers, due to the time value of money. Yet many workers don't even save this amount.

Plan Sponsor Impact

What should plan fiduciaries take away from these figures? One message is that a retirement plan committee often spends a lot of time on offering a best-in-class investment array for their retirement plan, but that will be meaningless for those who are not actually accumulating savings in the plan. However, plan utilization analysis frequently takes a back seat to investment analysis. To be certain, investments are an important piece of the puzzle (1 out of 20 retirees will run out of money at age 72, due to investment performance), but so is voluntary participation.

Thus, plan fiduciaries should be certain to dedicate a portion of their due diligence process to examining their plan utilization statistics. They need to work with their vendor(s) to increase voluntary participation and voluntary savings rates as applicable, and to measure the results of efforts. If those efforts are ineffective, more drastic measures, such as auto enrollment or mandatory contributions, may warrant consideration.

For More Information

If you would like more information on this article or the 403(b) Curriculum Learning Series, please contact us by email to CammackLaRhette@clcinc.com.

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