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EBRI News

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New Research From EBRI:

Are New Retirees Making Their Wealth Last? Report Finds Most Are on Track, Many Are Not

WASHINGTON, DC—With the U.S. retirement system moving increasingly to individual accounts—where individuals will be responsible to make sure their savings will last *throughout* retirement—a key question is: How are current retirees doing at managing their wealth?

New research released today by the nonpartisan Employee Benefit Research Institute (EBRI) finds that, over the 10-year period from 1992–2002, more than half of new retirees saw their total wealth actually *grow* by a significant amount. However, at least 15 percent of retirees had lost half or more of their *total wealth* during the period and more than 20 percent appeared to be on track to deplete their wealth before dying.

The analysis found that white men, married couples, and those who were well educated tended to have done well at managing their retirement wealth. But the picture is far more mixed for other groups, with Hispanics, single women, and people who are divorced or have low incomes tending to have reduced their wealth quickly.

Among the implications of the research, according to EBRI President Dallas Salisbury:

- Many older workers or retirees may benefit from options in their 401(k) plans and individual retirement accounts (IRAs) that allow for more managed withdrawals or annuity payments that produce a more consistent or controlled draw-down of wealth in retirement.
- Retirees will need more help in making these draw-down decisions as they increasingly are faced with managing significant wealth in the form of lump-sum distributions from a retirement plan.
- The focus of retirement planning in the United States has reached the point that it should include or focus on managing wealth in retirement, in addition to accumulating retirement assets—as some retirement plan sponsors and financial advisers are beginning to do.

"This study provides a first step in determining how individuals now starting to retire—those first to be affected by the shift to lump-sum distributions and 401(k) asset accumulation—are managing their wealth," said Salisbury. "Despite some groups doing a better job than others, every group had at least some members on the right track in wealth management. And every group also had members who either had quickly lost all their wealth or were well on the way to doing so."

Salisbury added: "This shows that many retirees are doing well, but there a significant number of retirees who could clearly run out of money before they run out of time."

The research is published in the January *EBRI Issue Brief,* "Changes in Wealth for Americans Reaching or Just Past Normal Retirement Age," available in full-text form at EBRI's Web site (www.ebri.org).

The study is part of ongoing EBRI research designed to measure whether workers are on track to accumulate sufficient resources for their retirement. It comes as President Bush is pushing for the creation of private investment accounts within Social Security, a move that could place even more responsibility on workers to manage their retirement assets, depending upon the payout options available from those accounts.

The study represents EBRI's analysis of data from the Health and Retirement Study (HRS), sponsored by the National Institute of Aging and administered by the Institute for Social Research at the University of Michigan. It covered current or former workers now ages 64 to 74, which includes those who have been affected by major changes in recent years in the way employers provide retirement benefits. Among the findings of the EBRI report:

- In the 10-year period of the study, the total wealth of these Americans grew significantly. In 1992, the study reported, mean (average) total wealth of these Americans was $235,514, compared with $435,072 in 2002—an 85 percent increase. But there were wide variations within demographic groups, the study noted. Total wealth was defined as all of a household's assets minus all of its debts.
- Fewer Americans now are covered by traditional pension plans (known as defined benefit plans), in which workers typically receive a monthly check from their former employers. At the same time, more workers now participate in 401(k) plans (known as defined contribution plans), in which workers (and sometimes employers as well) contribute a set amount and the workers control the investment decisions. For instance, investments in defined contribution plans hit $2 billion in 2002, double the amount a decade earlier. IRAs, fueled by the roll over of money from other retirement plans at job change or retirement, today hold more assets than any other type of private retirement plan in the United States.
- There are different measures of wealth (this study uses *total, financial,* and *IRA* wealth). The study found that about 15 percent of the 64–74-year-old cohort studied had lost half or more of their total wealth over the 10 years studied, and an additional 21 percent had lost a quarter or more of their total wealth. However, more than half saw their *total wealth* increase by 50 percent or more over the period.
- Interestingly, while adverse health events or the need for health care services clearly increase the chances of losing a significant level of wealth, they were not the only factors or even overwhelming factors in the loss of wealth.

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