Motley Fool's *Rule Your Retirement* Newsletter

Here's How Many U.S. Households Will Run Out of Money in Retirement

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July 19, 2019

Saving too little for retirement is a major fear for most Americans -- in fact, studies have shown that more Americans fear insufficient retirement savings than fear death. Running out of money is indeed very frightening, as no one wants to be without the cash they need in their 70s and 80s. But how likely is it that you'll actually end up penniless during your retirement years?

Unfortunately, research from the Employee Benefit Research Institute shows there's a pretty good chance that many Americans will run short of cash. In fact, the data about retirement savings shortfalls is startling. The good news is, if you know the risk of running out of money, you can take some steps to reduce the chances you'll become one of the seniors with too little saved to see you through.

How many U.S. households are going to run short of money?

According to the EBRI Retirement Security Projection Model, which was developed in 2003 and has been updated numerous times since, an estimated 40.6% of all U.S. households headed by someone aged 35 to 64 are projected to run short of money during retirement. This is based on a database of 27 million 401(k) participants and IRA account holders. This seems like a whole lot of households are going to run short, but it's actually a decline of 1.7 percentage points compared with the same model in 2014 -- so things are getting a little better.

Sadly, for those families likely to run out of cash, the shortfall isn't small. Even taking into account Social Security benefits, the aggregate retirement deficit for households headed by someone aged 35 to 64 is $3.83 trillion. Again, this is a slight decline from the $4.44 trillion shortage in 2014, but a shortage in the trillions isn't good news for anyone.

When looked at on an individual basis, the data becomes even more worrisome. In fact, EBRI projected average retirement savings shortfalls of $12,640 for widowers, $15,782 for widows, $24,905 for single men, and $62,127 for single women. Those who live the longest will also be far worse off, with Americans expected to live the longest facing 10.2 times the retirement deficit compared with retirees with the shortest projected lifespans.

This data should be worrisome to everyone, because even if you're not one of the four in 10 Americans who will have thousands too little in retirement funds, you've likely got friends and neighbors among this cohort -- and having millions of broke retirees across the country isn't exactly good news for the economy.

How can you make sure your household won't run out of cash?

With such large financial shortfalls, the best solutions would likely require systemic change -- for example, an increase in Social Security benefits to provide more income for retirees, or policy changes that facilitate broader access to retirement plans (EBRI found that eligibility for a defined contribution plan, such as a 401(k) or a 403(k), has a significant impact on the retirement deficit). For individuals 35 to 39 not eligible for a defined contribution plan now or in the future, the retirement deficit is projected to be $78,046 -- which is more than five times the average retirement deficit of $14,638 that individuals with 20 years of future eligibility in a defined contribution plan face.

In a time of political polarization, however, broad policy changes seem unlikely. If nothing changes, the only way you can make sure you're not part of the 40.6% of households with a retirement deficit is to make sure you're saving enough. You should aim to save at least 15% of your income, including any employer match available to you, to ensure you have the cash to support yourself during your senior years.

The retirement deficit is a major problem

The EBRI data clearly shows Americans are woefully ill-prepared for a secure retirement. Large-scale changes are needed, but unless and until those are forthcoming, individuals need to make sure they're prioritizing their own retirement savings and finding ways to put cash aside for the future.