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How Are New Retirees Doing Financially in Retirement?

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- ***Limited research:*** Although there has been extensive analysis of the *accumulation* of retirement assets in the United States, limited research has been done on how quickly Americans *use* their assets in retirement. Utilizing data from the Health and Retirement Study (HRS), this *Issue Brief* examines those currently between ages 65 and 75 to determine their levels of wealth in retirement, how those levels have changed, and to see if this group is on track for a financially secure retirement.
- ***Measuring wealth variables:*** The HRS measures several key variables, the primary one being total wealth (defined as total assets minus total debt). Others include income, financial wealth, and individual retirement account (IRA) wealth.
- ***Most new retirees are reasonably maintaining their income and assets:*** Over the 12-year period from 1992–2004, the majority of 65–75-year-old Americans appear to be starting their retirement reasonably successfully in terms of income and total wealth change. Overall, about 53 percent of Americans who have reached age 65 recently were found to have had no decline in household income, and 71 percent were found to have no decrease in total wealth over the period. About 60 percent had a decline in one or the other, but less than 20 percent had a decline in both.
- ***But those who are losing money are losing it fast:*** The prognosis does not look good for those in the study group who have experienced a wealth decline, as they are showing a sharp drop: There was a roughly 50 percent median decline in *total wealth* from 1992–2004 among those who experienced a decline, and the median average annual decline in total wealth surpassed 5 percent for this group—putting them at significant risk of running out of money in retirement. Those seeing a decline in *financial wealth* are posting a median decrease at approximately twice the level that research suggests is advisable. Although the HRS dataset does not allow detailed analysis, this is probably due to excessive spending rather than investment loss.
    - *The 5 percent solution:* Research has shown that, generally, individuals should spend less than 5 percent of their assets in each year of retirement in order to have a high likelihood of not running out of money within 30 years. When individuals' assets decline faster than this rate, chances go up that they will exhaust their savings sometime in retirement.
- ***Pension/annuity income a major plus:*** The HRS shows that individuals with the highest amounts of pension/annuity income tended to fare better than those with little or none of this type of income. However, 60 percent of those in the HRS sample did not have pension income, and future generations of Americans will face a smaller likelihood of receiving pension/annuity income from employment-based arrangements, as private-sector retirement coverage shifts to defined contribution (401(k)-type) plans. The importance of individual decision making increases with these trends. It will be interesting to see if annuities and fixed payment streams begin to be a more popular choice among retirees making choices.
- ***Education needed in managing money in retirement:*** The HRS data suggest that that many individuals need to learn much more about managing assets in retirement. How individuals continue to manage their individual account assets—especially IRAs—will be a critical factor, as those who had a decline in IRA wealth had a median decline of the entire amount of the IRA.

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Introduction

A large body of literature has been focused on how workers are doing at accumulating assets for retirement and actively participating in employment-based retirement plans. This includes analysis of average account balances in various tax-preferred retirement accounts as well as overall wealth.[1] These numbers have been compared with those of past generations to assess the relative preparation of the current generation that is close to retirement in relation to those that have retired, or to determine how the post-World War II baby boom generation measures up in terms of retirement.[2]

However, the accumulation of assets is only the first step toward a secure financial retirement. Furthermore, the comparison of wealth between generations *approaching* retirement versus those who *have* retired must properly account for the type of the wealth that is held (annuities vs. lump-sum dollars). Since there has been a tremendous shift away from annuity payments among workers in the private sector and the addition of savings plans for public-sector workers, determining a sustainable level of spending in retirement so as not to run out of money is the next step in the process of securing a financially successful retirement.

This *Issue Brief* examines the cohort that has for the most part reached the normal retirement age (65) for Social Security and Medicare eligibility in the last 10–15 years. The path of asset use and change in income that this cohort has experienced is examined to see if this group is on the "right" path to a financially secure retirement. The "right" path would mean that less than 5 percent of assets would need to be spent each year of retirement in order for the individual to have a high likelihood of not running out of assets for 30 years.[3]

This study focuses on changes in wealth and income over the period of 1992–2004 among those born from 1931 to 1941 (those currently between ages 65 and 75). Using the Health and Retirement Study (HRS, described below), the same group of individuals can be followed to see the rate of change in their income, total wealth, financial wealth, and individual retirement account (IRA) wealth. Therefore, it can be determined if these new retirees are experiencing declining income, declining wealth, or both. Furthermore, the average annual change in these variables is calculated to see if either of these declines is at a slow enough rate that would prevent individuals from outliving their wealth.[4]

Data

The data source for this analysis is the Health and Retirement Study (HRS), which is primarily sponsored by the National Institute of Aging (NIA) and the Social Security Administration (SSA) and administered by the Institute for Social Research (ISR) at the University of Michigan. This analysis is based on the initial HRS cohort consisting of those born from 1931–1941 (those currently between ages 65 and 75) who were originally sampled in 1992 and subsequently surveyed every two years (a wave of the survey). HRS is the most expansive, publicly available longitudinal survey of older Americans with regard to health and retirement issues. Version F of RAND HRS data set (released in May 2006) is used, since this dataset was specifically designed to provide a consistent longitudinal set of data points across the biannual survey waves of the overall HRS data.[5]

HRS has been used extensively to study retirement plan prevalence among these older Americans, knowledge about their retirement plans, and the wealth they held as they reached retirement, among other things.[6] By contrast, much less research has been done on the change in assets or wealth over the HRS sample period. The publicly available dataset (which is used in this analysis) has some limitations due to confidentiality restrictions. Therefore, the variables used are what is available and how they are defined within the RAND HRS dataset, which (in some cases) may not be the ideal metrics for the analysis, but are the ones most suitable given the restrictions. Wealth, defined as total assets minus total debt and the primary variable of interest in this study, is used in this analysis for two reasons: 1) the wealth variables are well-defined across HRS waves in the RAND HRS dataset; and 2) to account for any debt, which could be substituted for the use of assets and is considered a growing issue for Americans, especially older Americans.[7]

Since assets typically can generate income (through investment returns), a small level of wealth due to a small level of *assets* is not the same as having a small level of wealth due to a high level of *debt* relative to assets. However, the alternative is to focus on assets and not include debt (which is a future claim on assets and income), perhaps creating a situation in which a person with higher assets—and higher debt levels—may be in worse overall financial condition than an individual with lower assets (and lower debt). Consequently, *wealth* (total assets minus total debt) best shows how these Americans are managing their finances during the beginning period of their retirement years and is, therefore, used in this study.

One piece of the puzzle concerning the changes in wealth is individuals' consumption or expenditures, as changes in wealth could be due to spending more than one's income or due to market declines in assets. However, the RAND HRS dataset does not contain expenditures, so only income and wealth changes can be explored in this study.[8]

HRS Cohort

Figure 1 shows the distribution of the HRS cohort across various demographic characteristics by their 2004 status, expect where noted in the figure. The data reveal that most people in this cohort are married, are in good to excellent health, and have total wealth in 2004 of $100,000 or more. Furthermore, the various possible combinations of retirement statuses over the time period were well represented, except for those who said they were retired in 1992 and were working in 2004, who accounted for only 3.3 percent of the cohort. More than 50 percent retired during the study period, while 18.6 percent were working at the beginning and the end of the period, and another 26.5 percent said they were retired in 1992 and still retired in 2004.[9]

Change in Income and Wealth

Both Figure 1 and Figure 2 show that this cohort had a significant increase in wealth over the 1992–2004 period. Figure 1 shows the shift in the distribution of wealth from being relatively evenly distributed across the various wealth categories in 1992 to being skewed toward those having wealth of $250,000 or more in 2004. Figure 2 shows that this group had a median annual increase in total wealth of 5.2 percent, with financial wealth growing slightly faster at 5.9 percent.[10]

Individuals with the most income had the largest annual rates of increases in wealth, but those with the largest wealth did not follow the income trend, as those with less wealth had larger *rates of increases* in wealth. Minorities, widow(er)s, females, and those with lower educational attainment had the lowest median rates of increases in wealth. In particular, blacks and Hispanics in this cohort had median annual declines in financial wealth over this period.

While significant overall annual increases in wealth occurred, total household income remained essentially unchanged, as the median annual increase in household income was 0.2 percent (Figure 2).[11] However, for those who continued to work over the entire period, the median annual increase in income was 3.1 percent annually, compared with a 0.9 percent median annual decline among those who were retired during the study period. Furthermore, individuals with higher incomes had a median *increase* in their income, while those with lower incomes had a median *decrease* in incomes—a 4.2 percent median average annual increase for those making $69,000 or more in 2004, compared with a 3.4 percent median average annual decline for those making less than $15,000 in 2004.

Percentage With Declines in Income or Wealth

While the median change in income for the HRS cohort remained essentially unchanged and the median change in wealth showed a significant increase, the distribution of changes in income and wealth are not represented by these numbers. This section investigates the percentage of individuals with a decline, since these are the people who are already on a path that may lead them away from a financially successful retirement.

Income—Almost half (47.1 percent) of the individuals in this cohort had a decrease in income from 1992–2004 (Figure 3). For those who retired during these years, this number increased to 53.0 percent.

Figure 1

Distribution of Those in the HRS[1] Cohort, by Retirement Status, 2004

		Retirement Status			
	All	Working–1992 Working–2004	Retired–1992 Retired–2004	Working–1992 Retired–2004	Retired–1992 Working–2004
All	100.0%	18.6%	26.5%	51.6%	3.3%
	(within)		(across groups)		
Birth Year					
1931–1933	23.8	7.6	38.7	52.3	1.4
1934–1937	36.0	14.8	27.1	55.2	3.0
1938–1941	40.2	28.6	18.7	48.0	4.7
Gender					
Male	46.5	21.5	19.9	54.7	3.8
Female	53.5	16.1	32.2	48.9	2.8
Race/Ethnicity					
White	81.0	18.6	25.8	52.6	3.1
Black	10.0	16.8	30.2	49.6	3.4
Hispanic	6.9	20.6	30.1	44.5	4.8
Other	2.2	22.0	24.9	47.0	6.1
Education					
No degree	21.6	14.7	34.8	47.1	3.4
HS diploma	58.2	18.1	26.2	52.8	3.0
Bachelors	11.2	25.3	20.1	50.2	4.4
Advanced	8.9	23.1	16.5	56.9	3.5
Marital Status					
Married	67.3	19.0	25.5	52.3	3.2
Separated/divorced	13.8	19.5	21.9	56.2	2.4
Widowed	9.8	14.6	35.8	47.5	2.2
Never married	3.6	19.8	26.1	50.6	3.5
Unknown	5.5	18.3	33.2	39.6	8.9
Health Status					
Excellent/very good	42.2	22.9	20.4	53.1	3.6
Good	29.9	18.0	24.8	55.0	2.2
Fair	16.1	14.1	34.0	48.7	3.2
Poor	6.3	5.2	49.7	43.8	1.2
Unknown	5.5	18.2	33.3	39.7	8.9
Total Income					
Less than $15,000	22.6	11.3	35.5	50.3	2.9
$15,000–$38,999	33.0	13.3	30.5	53.9	2.4
$39,000–$68,999	22.0	19.6	22.8	54.2	3.4
$69,000 or more	22.5	32.8	15.3	47.1	4.8
Earnings Income 1992					
None	23.4	6.6	67.7	22.0	3.7
$1–$19,999	29.1	23.3	14.9	60.4	1.5
$20,000–$39,999	24.8	22.5	6.7	70.0	0.8
$40,000 or more	17.5	27.0	6.3	65.9	0.8
Pension/Annuity Income					
None	60.8	23.1	27.5	45.5	3.9
$1–$14,999	19.8	10.5	25.7	62.2	1.6
$15,000 or more	12.3	7.4	22.3	68.5	1.8
Total Wealth 1992					
Negative to $0	11.0	8.3	50.6	25.1	16.0
$1–$49,999	22.0	20.8	24.6	52.5	2.0
$50,000–$99,999	16.3	20.3	19.5	58.8	1.5
$100,000–$249,999	26.8	19.7	21.4	57.4	1.6
$250,000 or more	23.8	19.0	27.6	51.7	1.7
Total Wealth					
Negative to $0	11.8	18.1	33.3	43.9	4.7
$1–$49,999	16.0	16.9	28.5	51.4	3.2
$50,000–$99,999	10.9	16.2	27.0	53.1	3.7
$100,000–$249,999	19.9	20.3	22.8	53.3	3.6
$250,000 or more	41.5	19.2	25.4	52.7	2.7

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).
[1] Health and Retirement Study.

Figure 2
Median Annual Change in Total Household Income, Total Wealth, and Financial Wealth, 1992–2004

	Family Income	Total Wealth	Financial Wealth
All	0.2%	5.2%	5.9%
Retirement Status			
Working–1992/Working–2004	3.1	6.4	7.7
Retired–1992/Retired–2004	0.3	3.9	3.9
Working–1992/Retired–2004	-0.9	5.4	6.3
Retired–1992/Working–2004	3.7	3.8	3.8
Birth Year			
1931–1933	-0.4	3.8	4.8
1934–1937	0.1	5.0	6.6
1938–1941	0.8	6.2	6.0
Gender			
Male	0.5	5.8	6.7
Female	-0.1	4.6	5.2
Race/Ethnicity			
White	0.2	5.4	6.4
Black	0.1	4.0	-1.6
Hispanic	0.4	4.0	-4.2
Other	0.3	4.9	5.9
Education			
No Degree	0.1	3.5	2.3
HS Diploma	-0.1	5.0	5.6
Bachelors	0.6	6.9	8.6
Advanced	1.2	7.3	7.6
Marital Status			
Married	0.3	5.4	6.5
Separated/divorced	-0.2	5.8	4.0
Widowed	0.0	2.4	1.5
Never married	1.3	6.9	5.4
Unknown	-1.0	5.3	6.6

	Family Income	Total Wealth	Financial Wealth
All	0.2%	5.2%	5.9%
Health Status			
Excellent/Very Good	0.5	5.8	6.6
Good	0.2	5.1	5.9
Fair	0.0	3.7	3.7
Poor	0.0	2.6	1.5
Unknown	-1.0	5.3	7.3
Total Income 2004			
Less than $15,000	-3.4	1.4	-4.1
$15,000–$38,999	-2.1	4.2	3.6
$39,000–$68,999	0.7	5.6	6.6
$69,000 or more	4.2	7.6	9.1
Earnings Income 1992			
None	1.5	3.9	4.4
$1–$19,999	1.0	4.4	5.2
$20,000–$39,999	-0.6	5.5	6.1
$40,000 or more	-1.3	7.4	8.2
Pension/Annuity Income			
None	0.2	5.0	5.6
$1–$14,999	-0.5	4.9	4.8
$15,000 or more	1.1	6.2	7.9
Total Wealth 1992			
Negative to $0	2.0	N/A	N/A
$1–$49,999	0.9	8.0	5.0
$50,000–$99,999	0.0	4.9	6.7
$100,000–$249,999	0.0	5.7	6.6
$250,000 or more	-0.4	3.4	4.9

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).

Across demographic characteristics, the percentages were not significantly different. Females were slightly more likely to have had a decline in income. Otherwise, there was no consistent pattern across the retirement statuses when comparing across the demographic characteristics.

Total Wealth—Less than 30 percent of individuals had a decline in their wealth from 1992–2004 (Figure 4). This number increased to 36.2 percent for those who were retired at the beginning and end of that time frame. For those who did not retire during this period and for those who did, roughly one-quarter had a decline in wealth.

Certain groups stood out as being more likely to experience a decline in wealth: Individuals who were widowed, in poor health, less educated, or black or Hispanic were more likely to have had a decline in wealth. For example, among those who were widowed and had retired during the study, 38.9 percent had a decline in wealth, compared with 21.9 percent of those who were married. Furthermore, among those who retired and were in poor health, 45.3 percent had a decline in wealth, as opposed to 19.1 percent of those in very good or excellent health.

Income or Total Wealth—More than half of the individuals experienced a decline in household income or total wealth: Overall, 58.5 percent of this cohort experienced a decline in income or total wealth (Figure 5). This increases to 62 percent for those who retired during the study or before the study. Not surprisingly, those who worked throughout the study had the lowest percentage decline, at 40.7 percent.

Males, those with the highest educational attainment, and those with the highest pension/annuity income were less likely to have had a decline in household income or total wealth. For example, among those with $15,000 or more in annual pension/annuity income and who had retired during the study, 50.2 percent had a decline in either household income or total wealth. For comparison, among those with no pension/annuity income, 70.8 percent experienced a decline in income or wealth. The gender difference was much smaller,

Figure 3
Percentage of Individuals With a Decline in Total Household Income From 1992–2004

	All	Retirement Status: Working–1992 Working–2004	Retired–1992 Retired–2004	Working–1992 Retired–2004	Retired–1992 Working–2004
All	47.1%	26.0%	49.6%	53.0%	55.3%
Birth Year					
1931–1933	49.9	26.9	46.2	55.2	38.8
1934–1937	47.3	26.1	48.2	52.2	52.6
1938–1941	45.7	25.8	55.6	52.3	59.8
Gender					
Male	45.2	23.9	47.8	51.8	58.0
Female	48.8	28.5	50.6	54.1	52.2
Race/Ethnicity					
White	47.2	25.6	50.4	52.9	52.4
Black	47.2	27.1	47.6	52.8	61.0
Hispanic	46.0	26.1	41.5	56.6	62.6
Other	49.2	33.6	60.9	46.8	76.4
Education					
No degree	46.7	28.3	47.1	51.9	49.1
HS diploma	48.8	28.5	51.1	54.5	52.0
Bachelors	44.7	23.3	50.5	52.4	53.7
Advanced	40.3	13.6	45.7	46.5	91.0
Marital Status					
Married	46.5	26.3	49.5	51.6	54.3
Separated/divorced	48.8	30.9	45.1	55.8	62.1
Widowed	47.4	23.7	45.9	55.4	59.6
Never married	40.9	9.9	37.7	54.7	40.8
Unknown	54.2	24.2	71.3	53.2	56.8
Health Status					
Excellent/very good	46.5	26.3	53.8	51.7	55.2
Good	47.0	24.6	47.3	53.6	62.7
Fair	47.3	28.3	44.7	54.9	43.5
Poor	45.5	31.1	39.8	53.2	62.8
Unknown	54.4	24.2	71.0	53.7	56.8
Total Income 2004					
Less than $15,000	46.6	27.5	42.1	55.0	31.2
$15,000–$38,999	64.5	47.3	57.5	72.7	63.5
$39,000–$68,999	47.2	27.8	51.8	51.5	60.1
$69,000 or more	22.2	11.8	40.9	19.4	60.7
Total Wealth 1992					
Negative to $0	60.7	20.6	65.9	50.2	81.7
$1–$49,999	40.1	23.1	34.1	50.7	10.5
$50,000–$99,999	45.3	26.4	42.8	53.3	18.9
$100,000–$249,999	47.1	28.5	49.8	52.9	27.8
$250,000 or more	48.7	26.9	51.7	55.5	39.7

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).

but still evident, as 64.7 percent of females who retired during the study had a decline in income or wealth, compared with 60.4 percent of males.

Income and Total Wealth—While the majority of individuals in this cohort had a decline in household income *or* total wealth, the overwhelming majority of them did not have a decline in *both* household income and total wealth. In fact, only 17.6 percent were found to have had a decline in both household income and total wealth (Figure 6). For those who were retired throughout the study, 23.6 percent had a decline in both, while among those who retired during the study 15.7 percent had a decline in both.

The only individuals who consistently stood out as having a higher likelihood of having a decline in both income and wealth were those who were widowed or divorced. Among those divorced/separated or widowed and who retired during the study, 20.1 percent and 24.5 percent, respectively, experienced a decline in both measures, as opposed to only 13.1 percent of those who were married and who retired during the study.

Percentage With Declines in Other Wealth Measures

During 1992–2004, there was a significant increase in wealth attributable to people's homes. Since individuals typically do not use their home to finance their retirement, an individual's wealth that is used for retirement is financial wealth or wealth not attributable to his or her home.[12] Furthermore, individual retirement accounts (IRAs) have become a major financial vehicle for holding retirement assets, and, therefore, it is IRA wealth that is most likely to be used for expenses in retirement (which is why it was accumulated in the first place). Thus, this section examines these other wealth measures (financial, as opposed to housing) to determine the percentage of individuals who had a decrease in these types of wealth over the 1992–2004 period.

Financial Wealth—Approximately the same percentage of individuals had a decline in *financial* wealth as those with a decline in *total* wealth (30.2 percent vs. 29.0 percent). However, those who were retired throughout the study had a lower likelihood of having a decrease in financial wealth, 28.6 percent, than of having a decrease in total wealth, 36.2 percent (Figures 4 and 7). The opposite occurred for those who retired during the study, as 32.0 percent had a decline in financial wealth, compared with 25.3 percent who had a decline in total wealth.

Among those who were retired throughout the study, older individuals were more likely to have a decrease in financial wealth, while among those who retired during the study age did not appear to be a factor. Those with the highest pension/annuity income and who had retired during the study or were retired throughout the study had the lowest likelihood of having a decline in total wealth, but those with less pension/annuity income were more likely to have a decline in financial wealth compared with those without any income of this type. Therefore, having a smaller amount of pension/annuity income does not appear to help individuals preserve financial wealth—unlike having a higher level of this type of income, which does.

The individual's retirement status appears to affect how he or she uses wealth. The fact that individuals who were retired throughout the study had a smaller decline in financial wealth relative to those who retired during the study suggests that these individuals may use housing wealth differently: Those who were retired throughout the study appeared to have tapped some of their housing wealth, because they were more likely to have a reduction in *total* wealth, while having a lower likelihood of a decline in *financial* wealth. This result shows some likely shifting of wealth from housing (which is included only in total wealth but not in financial wealth) to maintain financial wealth, while allowing total wealth to decline. In contrast, those who retired during the study had a higher likelihood of maintaining *total* wealth, but a lower likelihood of maintaining *financial* wealth.

IRA Wealth—Among those in the HRS cohort who had IRA wealth in 1992, 35.0 percent experienced a decline in this wealth by 2004 (Figure 8). While this decline is higher than for the other wealth measures, it is not directly comparable because the study was restricted to only those with IRA wealth in 1992. Therefore, comparisons with other wealth measures are not valid.

Individuals who were retired throughout the study and widowed had a very high likelihood—70 percent—of having a decline in IRA wealth from 1992–2004. However, this could be the result of required withdrawals on the death of a spouse, as opposed to using this wealth for expenses. Otherwise, only females appeared to have a higher likelihood of having a decline in IRA wealth across all the retirement statuses relative to their comparison groups.

Figure 4
Percentage of Individuals With a Decline in Total Wealth From 1992–2004

		Retirement Status			
	All	Working–1992 Working–2004	Retired–1992 Retired–2004	Working–1992 Retired–2004	Retired–1992 Working–2004
All	29.0%	24.0%	36.2%	25.3%	57.9%
Birth Year					
1931–1933	30.4	24.2	33.8	28.6	34.7
1934–1937	27.7	24.8	35.0	23.6	52.3
1938–1941	29.4	23.5	40.5	25.1	65.3
Gender					
Male	26.2	22.5	35.2	22.1	58.4
Female	31.5	25.7	36.7	28.5	57.4
Race/Ethnicity					
White	26.8	22.3	33.6	23.4	55.3
Black	40.6	30.2	47.3	38.1	69.6
Hispanic	36.8	33.2	41.4	33.1	58.1
Other	34.0	26.2	52.8	22.2	76.4
Education					
No degree	37.2	26.2	41.2	36.6	52.1
HS diploma	29.0	25.6	35.7	25.1	59.0
Bachelors	20.9	21.9	27.3	15.5	47.6
Advanced	19.6	14.7	29.2	15.1	82.2
Marital Status					
Married	25.3	22.2	30.9	21.9	54.1
Separated/divorced	34.4	27.2	42.1	32.1	76.2
Widowed	40.5	31.5	44.1	38.9	75.2
Never Married	26.5	18.7	38.9	21.1	55.1
Unknown	42.8	30.7	59.9	31.2	54.9
Health Status					
Excellent/very good	23.8	20.5	33.5	19.1	59.8
Good	26.3	24.4	29.3	24.4	54.3
Fair	37.5	35.3	37.7	36.6	59.1
Poor	43.3	21.1	43.4	45.3	62.8
Unknown	42.5	30.7	59.6	30.8	54.9
Total Income 2004					
Less than $15,000	34.5	21.0	37.4	34.5	33.1
$15,000–$38,999	33.7	36.0	37.9	29.4	62.1
$39,000–$68,999	24.1	24.1	29.9	19.0	67.1
$69,000 or more	21.6	17.8	37.4	14.8	63.4
Earnings Income 1992					
None	30.1	28.9	29.7	31.2	33.2
$1–$19,999	30.3	28.3	25.3	31.9	44.0
$20,000–$39,999	23.8	22.8	29.3	23.6	24.0
$40,000 or more	16.4	17.4	23.9	15.3	10.3
Pension/Annuity Income					
None	34.0	27.3	39.7	31.0	68.6
$1–$14,999	30.1	22.5	38.7	27.1	57.7
$15,000 or more	19.3	17.0	35.7	13.7	37.2
Total Wealth 1992					
Negative to $0	68.9	70.6	69.8	59.9	79.5
$1–$49,999	27.9	23.6	31.0	28.0	31.1
$50,000–$99,999	21.7	14.2	25.0	22.8	34.4
$100,000–$249,999	19.3	15.8	22.7	19.1	19.9
$250,000 or more	27.6	31.5	29.0	24.8	47.1

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).

Figure 5
Percentage of Individuals With a Decline in Total Wealth or Household Income From 1992–2004

		Retirement Status			
	All	Working–1992 Working–2004	Retired–1992 Retired–2004	Working–1992 Retired–2004	Retired–1992 Working–2004
All	58.5%	40.7%	62.2%	62.6%	65.9%
Birth Year					
1931–1933	61.7	43.6	59.6	66.2	51.7
1934–1937	58.1	40.0	62.0	60.8	62.3
1938–1941	57.0	40.6	65.7	62.1	70.5
Gender					
Male	55.2	37.3	58.3	60.4	63.8
Female	61.4	44.6	64.3	64.7	68.4
Race/Ethnicity					
White	42.3	39.1	62.1	61.7	64.0
Black	36.7	50.1	64.3	66.5	73.8
Hispanic	38.7	44.5	59.0	70.0	67.6
Other	42.3	45.6	65.4	57.0	76.4
Education					
No degree	62.7	44.6	64.1	67.7	57.3
HS diploma	59.9	43.6	63.2	63.6	64.9
Bachelors	51.7	37.6	55.1	56.4	62.2
Advanced	47.9	24.2	53.3	52.9	97.6
Marital Status					
Married	56.6	39.9	59.9	60.7	63.7
Separated/divorced	63.2	47.2	62.6	67.8	89.4
Widowed	65.0	42.3	67.0	69.8	78.7
Never married	54.7	25.5	62.0	62.3	55.1
Unknown	61.0	41.4	74.8	59.5	56.8
Health Status					
Excellent/very good	56.1	38.7	64.4	59.6	68.4
Good	57.4	39.4	57.9	62.6	70.0
Fair	63.4	50.9	60.4	69.2	62.3
Poor	64.9	47.4	62.4	69.9	62.8
Unknown	61.0	41.4	74.4	59.7	56.8
Total Income 2004					
Less than $15,000	57.5	33.9	57.8	63.8	36.8
$15,000–$38,999	75.6	65.8	70.3	81.0	74.6
$39,000–$68,999	58.4	43.7	60.0	61.8	76.2
$69,000 or more	34.7	26.4	52.2	31.1	70.1
Earnings Income 1992					
None	53.2	43.6	54.6	53.5	42.9
$1–$19,999	55.3	42.6	56.4	60.1	50.9
$20,000–$39,999	60.4	40.8	77.7	65.4	31.6
$40,000 or more	59.0	36.9	78.9	66.1	57.7
Pension/Annuity Income					
None	64.3	45.1	68.0	70.8	77.1
$1–$14,999	66.3	44.3	69.1	68.8	69.1
$15,000 or more	50.9	34.5	58.5	50.2	48.3
Total Wealth 1992					
Negative to $0	77.9	74.2	77.5	76.4	83.3
$1–$49,999	54.3	38.9	52.8	61.8	37.7
$50,000–$99,999	54.2	35.0	53.7	61.2	46.5
$100,000–$249,999	54.9	37.0	59.9	59.7	36.5
$250,000 or more	60.5	44.1	63.1	65.0	63.3

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).

Extent of Decline Among Those With a Decline

Since individuals who did *not* have a decrease in income and/or wealth have at least been able to maintain their financial status, the focus in this section is on those who *did* have a decrease, so as to determine the rate of the decline over the 1992–2004 period. As was mentioned above, retirees who draw down less than 5 percent of their assets a year are expected to be able to live well beyond their current life expectancy without running out of assets. Consequently, the total decline and the average annual rate of decline in income and wealth is calculated to see if individuals who are experiencing a decline are on a path that will allow their wealth to last.[13]

Income—While income is not likely to drop to zero due to the presence of Social Security for most retirees, the rate of the decline is important to see if individuals are close to being able to maintain a similar standard of living throughout retirement compared with their working years. Among those who retired during the study and had a decline in income from 1992–2004, the median decline in total household income amounted to 39.0 percent (Figure 9). The median average annual decline is 4.0 percent for this group. Those working or retired throughout the study had smaller declines, with median average annual declines of 3.3 percent and 3.7 percent, respectively.

Individuals who were retired throughout the study and were widowed experienced the largest decline in income, with a 50.7 percent median decline from 1992–2004 or a median average annual decline of 5.7 percent. In contrast, those individuals with the highest incomes had the smallest declines: For those who retired during the study and had household income of $69,000 or more in 2004, the median decline was 19.6 percent over the period, or a median average annual decline of 1.8 percent. This compares with a 55.3 percent median decline and a median average annual decline of 6.5 percent for those in the same retirement status but with less than $15,000 of household income in 2004. Furthermore, those with the highest level of pension/annuity income had significantly smaller declines in household income relative to those with a smaller amount of or no pension/annuity income.

Total Wealth—Among individuals with a decline in total wealth, the median percentage decline was significantly larger than among those with a decline in household income. The median percentage decline in total wealth among those with a decline across each of the retirement statuses was approximately 51 percent over the period (Figure 10), a median average annual decline of roughly 5.5 percent. Consequently, the retirement status of the individual does not have a discernible effect on the *level of decline* in wealth for those with a decline, despite the fact that those who were retired throughout the study were more likely to experience a decline.

Individuals who reported a poor health status had significantly higher median declines in total wealth than those in better health. In particular, for those who retired during the study and who were in poor health, the median average annual decline was 10.5 percent, compared with 4.4 percent for those in good/excellent health.

Not surprisingly, income was a strong factor in the magnitude of the decline: Those with higher total income in 2004 and the highest pension/annuity income in 2004 had much smaller declines in wealth. Furthermore, those who were never married had larger declines in wealth, as did females.

Financial Wealth—The decline in *financial* wealth among those with such a decline was more substantial than for those with a decline in *total* wealth. Among those who retired *during* the study, the median decline in financial wealth from 1992–2004 was nearly 80 percent and the median average annual decline was almost 10 percent (Figure 11). For those retired *throughout* the study, the median total decline was somewhat smaller (at 74.5 percent), while for those working throughout the study the decline was somewhat larger (at 88.0 percent).

Those who were never married, in fair or poor health, or had lower levels of wealth, experienced much larger total median declines in financial wealth, reaching 100 percent. For example, individuals who retired during the study and were in poor health had a median total decline of 100 percent in financial wealth.

The one group that had a median average annual decline of less than 5 percent consisted of individuals who were retired throughout the study and had total income of $69,000 or more, with a median average annual decline of 3.9 percent. Essentially all of the other significant groups had median average annual declines larger than 5 percent. For those retired throughout the study, the level of pension/annuity income

Figure 6
Percentage of Individuals With a Decline in Total Wealth and Household Income From 1992–2004

		Retirement Status			
	All	Working–1992 Working–2004	Retired–1992 Retired–2004	Working–1992 Retired–2004	Retired–1992 Working–2004
All	17.6%	9.3%	23.6%	15.7%	47.3%
Birth Year					
1931–1933	18.0	7.5	20.4	17.6	21.8
1934–1937	16.9	10.9	21.2	15.0	42.5
1938–1941	18.1	8.8	30.4	15.3	54.6
Gender					
Male	16.2	9.0	24.8	13.5	52.6
Female	18.8	9.5	22.9	17.9	41.2
Race/Ethnicity					
White	16.2	8.8	21.9	14.5	43.6
Black	24.5	7.3	30.6	24.5	56.8
Hispanic	21.5	14.8	23.8	19.6	53.1
Other	25.5	14.2	48.3	12.1	76.4
Education					
No degree	21.2	9.9	24.3	20.8	43.9
HS diploma	17.9	10.6	23.5	16.0	46.0
Bachelors	13.9	7.6	22.7	11.4	39.1
Advanced	12.1	4.0	21.6	8.6	75.6
Marital Status					
Married	15.1	8.5	20.5	13.1	44.8
Separated/divorced	20.0	10.9	24.6	20.1	48.9
Widowed	22.9	12.8	22.9	24.5	56.1
Never married	12.7	3.1	14.7	13.5	40.8
Unknown	36.0	13.5	56.5	24.9	54.9
Health Status					
Excellent/very good	14.2	8.0	22.9	11.2	46.6
Good	15.9	9.6	18.7	15.4	46.9
Fair	21.4	12.7	21.9	22.2	40.3
Poor	23.9	4.7	20.8	28.6	62.8
Unknown	35.9	13.5	56.2	24.8	54.9
Total Income 2004					
Less than $15,000	23.5	14.6	21.8	26.6	27.5
$15,000–$38,999	22.5	17.5	25.1	21.1	51.0
$39,000–$68,999	12.9	8.1	21.7	8.6	51.1
$69,000 or more	9.1	3.2	26.1	3.1	54.0
Earnings Income 1992					
None	12.4	10.1	12.7	12.7	10.5
$1–$19,999	15.5	9.1	14.8	18.0	18.7
$20,000–$39,999	15.3	9.2	19.9	17.0	4.2
$40,000 or more	11.5	9.3	20.5	11.6	10.3
Pension/Annuity Income					
None	20.6	10.2	25.8	19.7	56.9
$1–$14,999	18.8	8.4	24.2	17.5	46.7
$15,000 or more	11.0	12.2	25.4	6.0	21.5
Total Wealth 1992					
Negative to $0	51.7	17.1	58.1	33.7	77.9
$1–$49,999	13.6	7.7	12.2	16.9	3.9
$50,000–$99,999	12.8	5.6	14.2	15.0	6.8
$100,000–$249,999	11.4	7.3	12.7	12.4	11.2
$250,000 or more	15.9	14.2	17.6	15.3	23.6

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).

Figure 7
Percentage of Individuals With a Decline in Financial Wealth From 1992–2004

	All	Retirement Status: Working–1992 Working–2004	Retired–1992 Retired–2004	Working–1992 Retired–2004	Retired–1992 Working–2004
All	30.2%	30.0%	28.6%	32.0%	17.0%
Birth Year					
1931–1933	31.8	23.8	31.2	33.8	17.0
1934–1937	29.1	29.8	28.6	30.3	9.8
1938–1941	30.2	31.1	25.4	32.5	21.3
Gender					
Male	28.4	29.3	26.0	30.1	11.1
Female	31.8	30.9	30.0	33.8	23.9
Race/Ethnicity					
White	29.7	28.1	29.7	30.9	19.8
Black	33.1	37.3	25.1	38.2	10.5
Hispanic	31.5	36.5	22.3	37.8	10.3
Other	30.9	45.4	30.1	28.5	0.0
Education					
No degree	30.7	32.6	27.5	33.3	20.3
HS diploma	31.7	30.4	30.7	33.3	20.6
Bachelors	26.5	27.6	24.2	28.6	6.4
Advanced	23.9	27.3	19.5	24.8	6.8
Marital Status					
Married	30.6	31.0	30.2	31.2	20.1
Separated/divorced	31.5	27.4	28.3	34.6	17.9
Widowed	34.3	39.0	31.2	36.0	19.7
Never married	24.7	16.7	24.8	28.3	18.8
Unknown	18.8	20.4	10.8	28.7	1.7
Health Status					
Excellent/very good	29.5	28.3	31.8	29.8	20.2
Good	32.7	32.1	31.6	33.9	17.3
Fair	31.2	37.3	26.2	33.9	16.1
Poor	30.7	25.0	27.3	34.5	54.9
Unknown	18.8	20.4	10.7	28.6	1.7
Total Income 2004					
Less than $15,000	24.1	15.6	23.3	27.6	7.5
$15,000–$38,999	38.0	39.2	35.8	39.5	23.2
$39,000–$68,999	29.4	29.0	28.4	30.7	18.5
$69,000 or more	25.7	30.1	20.2	25.3	17.3
Earnings Income 1992					
None	31.9	31.9	32.2	30.5	34.9
$1–$19,999	33.1	33.0	34.6	32.9	31.9
$20,000–$39,999	32.7	27.8	32.0	34.3	36.5
$40,000 or more	28..5	27.7	39.8	27.7	32.4
Pension/Annuity Income					
None	32.4	32.4	30.6	34.8	18.0
$1–$14,999	36.7	35.7	35.7	37.8	21.4
$15,000 or more	26.1	32.1	23.4	26.3	27.8
Total Wealth 1992					
Negative to $0	6.3	9.8	3.9	13.9	0.0
$1–$49,999	33.7	31.6	35.0	33.9	34.9
$50,000–$99,999	33.9	32.5	34.8	34.6	14.5
$100,000–$249,999	31.3	27.8	33.9	31.4	36.8
$250,000 or more	34.3	33.2	36.7	32.8	52.2

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).

did not have an effect on the median average annual decline in financial wealth, as each income group of this type had a median annual decline of slightly over 8 percent.

Length of Time Retired—A potentially key factor in the level of decline an individual could experience is the length of time he or she is retired. Figure 12 shows the median total decline and median average annual decline for those with a decline in each income or wealth category, by the number of waves of HRS that the individual is retired. Each wave of HRS is taken every two years, so someone who has been retired for two or three waves had been retired for four to six years during the study. However, it appears that the length of retirement does not have a significant impact on the median decline for those with a decline. For example, of those who were retired for one wave and had a decline in income, the median total decline in income was 36 percent—the same as it was for those retired in all seven waves. Furthermore, for those who had been retired for more than one wave and who had experienced a decline in total wealth, the median average annual decline for each number of waves retired was slightly more than 5 percent.

IRA Wealth Changes

IRAs are tax-preferred savings accounts established to provide assets to finance an individual's retirement expenses. Total IRA assets in the United States surpass those held in either private-sector defined contribution plans (typically, 401(k)-type plans) or defined benefit plans (traditional pensions), and are likely to become the single largest source of retirement assets outside of Social Security for private-sector workers in retirement.[14] Therefore, the way the wealth in these accounts is changing merits specific attention. This section examines IRA wealth data for all individuals in the cohort to determine the change in wealth once a positive level of wealth has been established in an IRA. From this point, the change in IRA wealth is determined through 2004, the last year of data in the HRS. Thus, if individual first had IRA wealth in 1998, its change is tracked from 1998 to 2004. Similarly, if the wealth was first established in 1992, it is followed from 1992–2004.

Of those in the HRS cohort who had any IRA wealth by 2002, 45.8 percent had experienced a decline in it by 2004 (Figure 13). The overall median average annual percentage change was 0.7 percent. For those with IRA wealth that did not decline, the median average annual increase in IRA wealth was 10.7 percent. However, for those with a decline, the median annual change was a total depletion of the account. This median (the complete use of the assets) occurred across all the categories examined, except for those with the highest wealth—$250,000 or more.

The increases of those with an increase were close to 10 percent across each of the categories examined. The age of the individual appeared to be negatively correlated with the increases: As the individual became older, the annual increase became smaller. Consequently, those who held onto their accounts experienced significant annual increases in them, while those who used them for the most part emptied the account.[15]

Conclusion

Limited research has been done on how quickly Americans use their accumulated resources in retirement. This study attempts to provide some evidence on this topic. Overall, about 47 percent of Americans who have reached age 65 recently were found to have had a decline in household income, and 29 percent were found to have a decrease in total wealth from 1992–2004. Furthermore, approximately 60 percent had a decline in one or the other. However, less than 20 percent had a decline in both. Consequently, the majority of these Americans appear to be beginning their retirement reasonably successfully in terms of income and wealth changes.

Yet, among those who have experienced declines, the prognosis does not look good, as these individuals are experiencing relatively substantial declines in wealth. There was a roughly 50 percent median decline in total wealth from 1992–2004 among those who experienced a decline. The median average annual decline in total wealth surpassed 5 percent for this group. This 5 percent rate of decline is a threshold that research has shown to be at the upper bound of the spend-down rate of assets: Individuals who spend more of their assets than this are at significant risk of running out of money sometime in retirement.

For financial wealth, the picture is grimmer for those with a decline. The median decline among those with a decline in financial wealth was roughly 80 percent over the 1992–2004 period, and the median average annual decline was 9 percent.[16] Therefore, the median among those with a decrease in financial wealth represents a loss of wealth at approximately twice the level that research suggests is advisable.

Looking at a component of total wealth that is considered a set-aside for retirement—IRA wealth—a dichotomy emerges between those with and without a decline in this wealth: The split between these two groups was roughly 50–50. For those *without* a decline, the median average annual increase in IRA wealth was more than 10 percent, a respectable annual increase in wealth. In contrast, for those *with* a decline, the median decrease was equal to the entire amount that had been accumulated in the IRA. Therefore, the declining group used all their IRA wealth, while the other group had a substantial annual increase in their IRA wealth.

Groups that fared the worst in terms of declines were those that would be expected, with females, widow(er)s, the never-married, those in poor health, and low-income individuals having relatively larger median declines in wealth. The groups that had the lower median declines were those with higher educational attainment, higher income, and (more specifically) those with the highest pension/annuity income. However, groups that would be thought to have higher declines did not, as age and length of retirement during the study period were not overall indicators of larger declines in wealth.

Consequently, some good and bad news can be taken from this study. A majority of Americans who have recently passed age 65 are maintaining their wealth and income for the most part, whereas those with declining wealth are losing a substantial amount of it—an amount that is likely to lead these people to outlive their assets. However, this study was not able to examine expenditures, which are a critical element in the change in wealth. Thus, spending beyond one's means or bad investment returns cannot be singled out as the major cause for the declines, although the substantial gains in both the stock and housing markets over the study period suggest that spending is the greater issue.

Certainly more study is necessary to see how these individuals continue to progress through their retirement. Will those with declining wealth be able to stop the slide or even turn it around? If a period of substantial positive equity market returns does not occur, will even more people move into the group with substantially declining wealth? Furthermore, how individuals continue to manage their individual account assets will be a critical factor, as those who had a decline in IRA wealth had a median decline of the entire amount.

This suggests that many individuals need to learn much more about managing their assets in retirement. The HRS shows that individuals with the highest amounts of pension/annuity income tended to fare better than those with little or none of this type of income. However, 60 percent of those in the HRS sample did not have pension income, and future generations of Americans will face a smaller likelihood receiving of pension/annuity income from employment-based arrangements, as private-sector retirement coverage shifts to defined contribution (401(k)-type) plans. The importance of individual decision making increases with these trends. It will be interesting to see if annuities and fixed payment streams begin to be a more popular choice among retirees making choices. To date, annuities have not gained a stronghold in the market, but better and more flexible products currently being introduced may help.

Current data indicate that many Americans appear to be on the right track for financing their retirement, have successfully managed their assets to date, and could likely have a reasonably comfortable retirement. However, other Americans appear to be in for a trying time in retirement—not just because of insufficient savings, but also because of their apparent lack of money management skills to properly utilize whatever retirement assets they do have.

Figure 8

Percentage of Individuals With a Decline in IRA[1] Wealth From 1992–2004 Among Those Who Had IRA Wealth in 1992

		Retirement Status			
	All	Working–1992 Working–2004	Retired–1992 Retired–2004	Working–1992 Retired–2004	Retired–1992 Working–2004
All	35.0%	34.7%	38.4%	33.6%	42.1%
Birth Year					
1931–1933	33.8	33.8	36.7	40.0	70.5
1934–1937	39.9	39.9	37.4	29.2	47.6
1938–1941	32.5	32.5	43.5	33.6	27.7
Gender					
Male	30.6	30.6	32.0	29.6	37.2
Female	39.3	39.3	41.7	37.4	45.1
Race/Ethnicity					
White	33.5	33.5	37.4	31.8	42.8
Black	50.8	50.8	59.7	69.6	29.6
Hispanic	43.3	43.3	61.1	54.2	41.1
Other	51.2	51.2	42.3	24.2	41.7
Education					
No degree	41.7	41.7	48.9	50.6	44.9
HS diploma	35.4	35.4	39.4	35.2	48.9
Bachelors	31.9	31.9	31.4	24.9	29.8
Advanced	32.7	32.7	28.9	26.2	16.1
Marital Status					
Married	32.1	32.1	35.0	32.4	42.8
Separated/divorced	44.9	44.9	37.2	39.8	42.8
Widowed	48.7	48.7	70.0	45.5	100.0
Never Married	45.5	45.5	45.6	24.2	0.0
Unknown	31.7	31.7	32.0	27.4	0.0
Health Status					
Excellent/very good	32.3	32.3	40.3	29.8	36.4
Good	34.4	34.4	33.9	38.0	40.5
Fair	53.5	53.5	37.1	41.2	100.0
Poor	29.5	29.5	55.6	37.7	N/A
Unknown	31.7	31.7	32.0	26.8	0.0
Total Income 2004					
Less than $15,000	27.5	4.5	39.7	27.9	36.2
$15,000–$38,999	45.8	63.6	44.0	44.1	25.8
$39,000–$68,999	32.3	35.3	35.1	30.0	71.1
$69,000 or more	30.2	32.1	31.9	28.2	39.1
Earnings Income 1992					
None	47.7	47.7	38.8	42.0	34.0
$1–$19,999	35.6	35.6	41.5	38.4	45.9
$20,000–$39,999	34.6	34.6	42.3	36.3	73.6
$40,000 or more	31.3	31.3	22.6	24.5	39.8
Pension/Annuity Income					
None	35.9	35.9	39.6	38.0	41.4
$1–$14,999	42.9	42.9	40.2	38.0	100.0
$15,000 or more	49.5	49.5	44.9	28.2	41.1
Total Wealth 1992					
Negative to $0	26.9	26.9	N/A	46.5	N/A
$1–$49,999	58.7	58.7	60.1	53.7	N/A
$50,000–$99,999	36.2	36.2	55.7	39.8	N/A
$100,000–$249,999	32.5	32.5	36.6	33.8	N/A
$250,000 or more	30.7	30.7	34.3	27.7	N/A

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).
[1] Individual retirement account.

Figure 9

Median Total Decline and Median Average Annual Decline in Total Household Income Among Those Who Had a Decline in Family Income From 1992–2004

	Retirement Status					
	Working–1992/Working–2004		Retired–1992/Retired–2004		Working–1992/Retired–2004	
	Median total decline	Median average annual decline	Median total decline	Median average annual decline	Median total decline	Median average annual decline
All	-32.9%	-3.3%	-36.5%	-3.7%	-39.0%	-4.0%
Birth Year						
1931–1933	-34.1	-3.4	-37.9	-3.9	-39.9	-4.2
1934–1937	-31.8	-3.1	-35.9	-3.6	-39.3	-4.1
1938–1941	-34.2	-3.4	-34.9	-3.5	-37.1	-3.8
Gender						
Male	-32.9	-3.3	-35.6	-3.6	-36.4	-3.7
Female	-32.8	-3.3	-36.9	-3.8	-40.8	-4.3
Race/Ethnicity						
White	-30.4	-3.0	-36.2	-3.7	-39.0	-4.0
Black	-23.3	-2.2	-41.6	-4.4	-39.1	-4.0
Hispanic	-39.2	-4.1	-35.4	-3.6	-39.1	-4.0
Other	-60.5	-7.4	-44.2	-4.8	-37.0	-3.8
Education						
No degree	-29.0	-2.8	-35.5	-3.6	-38.7	-4.0
HS diploma	-33.5	-3.3	-36.4	-3.7	-39.7	-4.1
Bachelors	-34.8	-3.5	-48.0	-5.3	-36.4	-3.7
Advanced	-37.2	-3.8	-30.9	-3.0	-34.8	-3.5
Marital Status						
Married	-31.2	-3.1	-34.9	-3.5	-37.9	-3.9
Separated/divorced	-37.2	-3.8	-28.6	-2.8	-39.5	-4.1
Widowed	-28.3	-2.7	-50.7	-5.7	-43.9	-4.7
Never Married	-26.5	-2.5	-42.0	-4.4	-36.0	-3.7
Unknown	-50.5	-5.7	-50.3	-5.7	-42.4	-4.5
Health Status						
Excellent/very good	-34.6	-3.5	-37.5	-3.8	-38.2	-3.9
Good	-28.6	-2.8	-35.5	-3.6	-38.4	-4.0
Fair	-22.0	-2.0	-33.3	-3.3	-39.8	-4.1
Poor	-52.2	-6.0	-37.8	-3.9	-40.1	-4.2
Unknown	-50.5	-5.7	-50.3	-5.7	-42.4	-4.5
Total Income 2004						
Less than $15,000	-64.9	-8.4	-48.2	-5.3	-55.3	-6.5
$15,000–$38,999	-41.2	-4.3	-38.3	-4.0	-40.3	-4.2
$39,000–$68,999	-21.6	-2.0	-26.3	-2.5	-26.6	-2.5
$69,000 or more	-19.2	-1.8	-23.2	-2.2	-19.6	-1.8
Earnings Income 1992						
None	-32.8	-3.3	-34.1	-3.4	-43.3	-4.6
$1–$19,999	-37.4	-3.8	-37.5	-3.8	-36.6	-3.7
$20,000–$39,999	-26.1	-2.4	-37.8	-3.9	-37.9	-3.9
$40,000 or more	-37.2	-3.8	-47.2	-5.2	-41.2	-4.3
Pension/Annuity Income						
None	-32.8	-3.3	-36.7	-3.7	-44.8	-4.8
$1–$14,999	-36.8	-3.8	-37.2	-3.8	-34.1	-3.4
$15,000 or more	-25.7	-2.4	-26.1	-2.5	-24.5	-2.3
Total Wealth 1992						
Negative to $0	-28.6	-2.8	-31.0	-3.1	-39.1	-4.1
$1–$49,999	-37.3	-3.8	-35.7	-3.6	-35.2	-3.6
$50,000–$99,999	-29.7	-2.9	-35.4	-3.6	-41.6	-4.4
$100,000–$249,999	-28.3	-2.7	-37.1	-3.8	-39.4	-4.1
$250,000 or more	-40.1	-4.2	-37.2	-3.8	-40.4	-4.2

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).

Figure 10

Median Total Decline and Median Average Annual Decline in Total Wealth Among Those Who Had a Decline in Total Wealth From 1992–2004

	Retirement Status					
	Working–1992/Working–2004		Retired–1992/Retired–2004		Working–1992/Retired–2004	
	Median total decline	Median average annual decline	Median total decline	Median average annual decline	Median total decline	Median average annual decline
All	-51.6%	-5.5%	-51.7%	-5.4%	-51.0%	-5.4%
Birth Year						
1931–1933	-70.8	-9.7	-51.9	-5.8	-45.9	-5.0
1934–1937	-51.4	-4.9	-43.7	-4.7	-53.5	-5.6
1938–1941	-49.0	-5.2	-59.2	-6.8	-55.5	-6.2
Gender						
Male	-51.6	-5.0	-45.0	-4.7	-48.4	-5.2
Female	-52.6	-5.8	-56.0	-6.2	-54.5	-5.7
Race/Ethnicity						
White	-51.4	-5.5	-46.5	-4.7	-50.0	-5.3
Black	-68.5	-4.3	-70.0	-9.8	-54.0	-5.6
Hispanic	-55.7	-3.2	-66.7	-8.9	-66.7	-6.3
Other	-53.9	-6.3	-9.3	-0.1	-48.4	-5.4
Education						
No degree	-65.6	-6.0	-67.8	-8.9	-65.1	-6.4
HS diploma	-53.9	-5.5	-48.0	-5.0	-48.2	-5.2
Bachelors	-49.0	-5.5	-30.5	-2.9	-50.9	-5.8
Advanced	-46.0	-5.0	-33.3	-3.3	-45.2	-4.5
Marital Status						
Married	-47.5	-4.8	-42.3	-4.3	-45.8	-4.7
Separated/divorced	-64.6	-7.0	-84.2	-11.9	-62.1	-7.0
Widowed	-40.0	-4.9	-57.3	-7.5	-52.9	-5.6
Never Married	-76.9	-11.0	-73.3	-12.3	-85.4	-14.6
Unknown	-55.5	-6.0	-97.7	-16.8	-61.4	-7.4
Health Status						
Excellent/very good	-50.7	-5.4	-33.3	-3.3	-42.8	-4.4
Good	-42.4	-4.2	-43.6	-4.6	-50.1	-5.6
Fair	-70.2	-6.1	-63.8	-8.0	-56.9	-6.2
Poor	-100.0	-24.8	-78.3	-10.4	-73.9	-10.5
Unknown	-55.5	-6.0	-97.7	-16.8	-61.4	-7.4
Total Income 2004						
Less than $15,000	-70.8	-7.0	-84.2	-14.0	-74.7	-9.9
$15,000–$38,999	-55.7	-6.3	-45.0	-4.8	-47.5	-5.0
$39,000–$68,999	-50.7	-5.2	-27.9	-2.5	-43.4	-4.5
$69,000 or more	-43.5	-4.2	-38.8	-2.9	-40.9	-3.2
Earnings Income 1992						
None	-49.0	-5.4	-58.3	-6.7	-50.0	-5.5
$1–$19,999	-58.5	-6.2	-43.4	-4.6	-61.1	-6.8
$20,000–$39,999	-50.0	-5.0	-47.4	-3.7	-47.2	-4.8
$40,000 or more	-41.0	-4.2	-23.6	-2.2	-41.7	-4.0
Pension/Annuity Income						
None	-52.3	-5.5	-60.9	-7.0	-54.7	-6.0
$1–$14,999	-55.2	-6.5	-43.6	-4.7	-48.0	-5.0
$15,000 or more	-25.5	-2.9	-27.3	-2.4	-41.3	-3.7
Total Wealth 1992						
$1–$49,999	-58.5	-6.8	-79.2	-12.3	-66.6	-8.7
$50,000–$99,999	-34.7	-5.0	-42.7	-4.6	-44.1	-5.1
$100,000–$249,999	-35.2	-4.5	-37.4	-4.3	-42.8	-4.8
$250,000 or more	-45.4	-4.9	-39.1	-4.0	-42.4	-4.6

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).

Figure 11

Median Total Decline and Median Average Annual Decline in Financial Wealth Among Those Who Had a Decline in Financial Wealth From 1992 to 2004

	Retirement Status					
	Working–1992/Working–2004		Retired–1992/Retired–2004		Working–1992/Retired–2004	
	Median total decline	Median average annual decline	Median total decline	Median average annual decline	Median total decline	Median average annual decline
All	-88.0%	-9.0%	-74.5%	-8.3%	-79.7%	-9.7%
Birth Year						
1931–1933	-88.4	-16.4	-70.6	-8.7	-77.4	-10.1
1934–1937	-88.1	-8.4	-66.7	-7.8	-82.7	-10.0
1938–1941	-88.0	-8.7	-90.4	-9.5	-79.0	-9.2
Gender						
Male	-86.6	-8.4	-72.9	-8.7	-79.4	-9.4
Female	-89.3	-11.1	-79.5	-7.9	-80.0	-10.1
Race/Ethnicity						
White	-86.2	-9.4	-66.7	-7.5	-75.0	-8.7
Black	-100.0	-8.2	-100.0	-100.0	-99.9	-17.5
Hispanic	-100.0	-10.1	-100.0	-16.4	-96.0	-13.9
Other	-75.0	-3.6	-95.5	-7.6	-92.7	-16.8
Education						
No degree	-100.0	-13.9	-96.1	-11.1	-97.2	-15.6
HS diploma	-88.1	-12.3	-70.0	-7.7	-77.4	-9.5
Bachelors	-68.8	-5.4	-53.2	-6.1	-63.6	-8.1
Advanced	-63.6	-5.9	-45.1	-4.9	-62.1	-7.5
Marital Status						
Married	-86.0	-8.4	-66.7	-7.8	-77.4	-8.7
Separated/divorced	-98.8	-8.2	-98.4	-15.5	-80.0	-11.6
Widowed	-86.4	-15.3	-85.0	-9.2	-80.1	-10.5
Never Married	-95.4	-22.1	-99.4	-27.2	-93.6	-14.8
Unknown	-100.0	-21.4	-100.0	-8.4	-90.6	-15.8
Health Status						
Excellent/very good	-82.1	-8.7	-65.1	-8.1	-70.6	-8.6
Good	-86.7	-8.1	-66.7	-7.4	-80.0	-9.7
Fair	-99.4	-14.2	-90.0	-11.7	-83.2	-11.7
Poor	-283.3	-100.0	-100.0	-11.6	-100.0	-16.2
Unknown	-100.0	-21.4	-100.0	-8.4	-90.6	-15.8
Total Income 2004						
Less than $15,000	-100.0	-34.5	-99.9	-20.0	-98.6	-17.5
$15,000–$38,999	-93.6	-9.9	-75.0	-8.7	-77.4	-9.2
$39,000–$68,999	-85.0	-8.9	-54.5	-6.3	-75.0	-8.7
$69,000 or more	-73.0	-8.0	-38.6	-3.9	-62.8	-7.5
Earnings Income 1992						
None	-95.7	-15.1	-79.8	-8.4	-87.5	-15.0
$1–$19,999	-94.7	-13.2	-66.2	-8.0	-85.3	-10.4
$20,000–$39,999	-74.0	-7.4	-60.0	-7.0	-79.6	-9.7
$40,000 or more	-70.0	-8.4	-50.0	-9.9	-66.7	-8.2
Pension/Annuity Income						
None	-89.2	-9.4	-80.0	-8.3	-83.5	-12.3
$1–$14,999	-86.6	-7.7	-70.0	-8.1	-75.9	-8.9
$15,000 or more	-72.2	-6.4	-65.0	-8.4	-61.1	-7.4
Total Wealth 1992						
$1–$49,999	-100.0	-16.2	-100.0	-20.3	-100.0	-13.5
$50,000–$99,999	-94.4	-10.9	-86.7	-10.9	-82.5	-10.9
$100,000–$249,999	-66.7	-8.4	-65.1	-7.7	-66.0	-8.7
$250,000 or more	-69.5	-8.0	-58.1	-7.0	-63.3	-9.1

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).

Figure 12

Median Total Decline and Median Average Annual Decline in Total, Financial, and IRA[1] Wealth and Total Income From 1992–2004, Among Those Who Had a Decline in Each Year, by Number of HRS[2] Waves Retired

	Total Income			Total Wealth			Financial Wealth			IRA Wealth		
Number of Waves Retired	Distribution with decline	Median total percentage decline	Median average annual decline	Distribution with decline	Median total percentage decline	Median average annual decline	Distribution with decline	Median total percentage decline	Median average annual decline	Distribution with decline	Median total percentage decline	Median average annual decline
All	100.0%	-38.0%	-3.9%	100.0%	-51.3%	-5.4%	100.0%	-78.8%	-8.9%	100.0%	-100.0%	-100.0%
One	6.6	-36.4	-3.7	6.1	-62.6	-7.0	7.7	-80.3	-11.0	6.4	-100.0	-100.0
Two or Three	21.7	-37.4	-3.8	15.8	-51.0	-5.5	19.4	-78.9	-9.2	18.0	-100.0	-100.0
Four or Five	26.8	-39.0	-4.0	23.6	-48.7	-5.2	27.4	-77.5	-8.7	28.8	-100.0	-100.0
Six	12.4	-42.9	-4.6	12.3	-47.5	-5.2	14.0	-80.6	-11.7	14.6	-100.0	-100.0
Seven	32.5	-36.5	-3.7	42.3	-51.7	-5.4	31.5	-74.5	-8.3	32.2	-100.0	-100.0

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).
[1] Individual retirement account.
[2] Health and Retirement Study.

Figure 13

Percentage With a Decline and Median Average Annual Change in IRA[1] Wealth From Initial Year With IRA Wealth to 2004, Among Those With Complete Data Throughout the Study From 1992–2004

	Percentage With Decline	Overall Median Average Annual Percentage Change	Annual Percentage Change of Those With a Decline	Median Average Annual Percentage Change of Those With a Decline
All	45.8%	0.7%	-100.0%	10.7%
Retirement Status				
Working–1992/Working–2004	45.2	0.0	-100.0	11.1
Retired–1992/Retired–2004	47.0	0.1	-100.0	8.8
Working–1992/Retired–2004	45.3	1.3	-100.0	11.2
Retired–1992/Working–2004	57.7	-5.9	-100.0	10.8
Number of Waves Retired				
None	46.0	0.0	-100.0	11.1
One	41.2	0.0	-100.0	10.3
Two or three	44.6	2.4	-100.0	12.0
Four or five	46.1	0.7	-100.0	11.4
Six	47.3	1.0	-100.0	9.6
Seven	47.0	0.1	-100.0	8.8
Birth Year				
1931–1933	48.7	0.0	-100.0	9.6
1934–1937	44.1	1.9	-100.0	10.9
1938–1941	45.7	0.0	-100.0	11.2
Total Income 2004				
Less than $15,000	66.3	-100.0	-100.0	9.6
$15,000–$38,999	54.5	-2.7	-100.0	10.0
$39,000–$68,999	42.9	2.0	-100.0	10.3
$69,000 or more	34.3	5.5	-100.0	12.0
Total Wealth 1992				
Negative to $0	66.7	-100.0	-100.0	27.1
$1–$49,999	65.0	-100.0	-100.0	8.4
$50,000–$99,999	55.5	-5.4	-100.0	12.0
$100,000–$249,999	42.2	3.2	-100.0	11.4
$250,000 or more	34.9	4.8	-36.9	10.5

Source: Employee Benefit Research Institute estimates from the RAND Health and Retirement Study (HRS) data (version F).
[1] Individual retirement account.

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Endnotes

[1] For example, See Copeland (2006a), Copeland (2006c), and Holden and VanDerhei (2006), for retirement account assets, employment-based retirement plan participation, and 401(k) plan account balances, asset allocation, and loans, respectively.

[2] See the Congressional Budget Office (2003) study for review of these studies. Also, see VanDerhei and Copeland (2003) for an estimation of the shortfall in the baby-boomer generations' resources needed to maintain the same standard of living throughout retirement.

[3] See Ameriks, Veres, and Warshawsky (2001) for a discussion of previous research on this topic along with the authors' analysis. See also Cooley, Hubbard, and Walz (1998) for another analysis on the withdrawal or spend-down rate of retirement savings. In both studies, withdrawal rates of approximately 5 percent are considered rates that will ensure some retirement savings to be available for retirements of 30 years.

[4] This is study is an extension of previous EBRI work on HRS, where only wealth changes were examined not income of rate of changes in wealth. See Copeland (2005).

[5] The RAND HRS dataset is the combination of the biannual waves of the Health and Retirement Study (HRS) into one longitudinal dataset that allows for the analysis of issues critical to the near elderly and elderly as they age into their retirement years. RAND has been creating this dataset for a number of years with Version F including the 2004 wave of HRS with the prior six waves. See St. Clair, et al., May 2006 for further information on this dataset.

[6] See Poterba, Venti, and Wise (2004) and Moore and Mitchell (2000) for retirement plan type prevalence and wealth using HRS, and see Gustman and Steinmeier (2003) for knowledge about pensions from HRS. Numerous other studies have been done using HRS, see hrsonline.isr.umich.edu/papers/index.html for an exhaustive list of publications using HRS.

[7] See Copeland (2006b) for an examination of debt among families with heads age 55 or older.

[8] See Hurd and Rohwedder (2003) for analysis of expenditure data from HRS.

[9] The retirement status was determined by the using the self-reported question of whether the individual said they were retired. The status in 1992 or as close to 1992 that had an answer was used for the initial status, while the status in 2004 (or last reported status) used for the ending status.

[10] These are nominal changes in wealth, as both levels are presented in current dollars (1992 and 2004).

[11] These are nominal changes in household income from 1992–2004. The income examined in this study is total household income, which includes all income sources in the household, e.g., either spouse's earnings, Social Security retirement and disability income, pension and annuity income, capital gain income (interest, dividends, business income), unemployment and worker's compensation, and other income. Other income includes lump-sum payments from insurance, pensions, and inheritances, although it is not clear how annual withdrawals from tax-qualified accounts are handled in the survey.

[12] Total wealth components that not included in financial wealth are primary residence, other real estate, transportation (cars, motorcycles, etc.), and business assets. IRA wealth is also not part of financial wealth in this dataset, but is part of the total wealth. Consequently, financial wealth includes assets that are highly liquid, such as bank accounts, bond, and stocks. This would also include variable annuities, cash value of life insurance, and other similar products that fall into the other financial asset category. All debt is included in the wealth calculation against these assets with the exception of any debt attributable to the primary residence.

[13] This section does not examine the group of people who were retired in 1992 but were working by 2004, as this group did not have a sufficiently large sample for reliable estimation across the various demographic groups. The average annual declines are only reported for those that had positive wealth in 1992 and nonnegative wealth in 2004.

[14] See Copeland (2007) for statistics on IRA assets relative to private-sector defined contribution plan and defined benefit plan assets.

[15] An important consideration is that just because the account was depleted, it does not mean that the assets were spent, as the assets could have been withdrawn from the IRA but held in a taxable account and not spent. This is difficult to determine what is spent and what is just moved to another account due to money being fungible. However, for the median individual with a decline in IRA wealth, the decline is 100 percent.

[16] Financial wealth only includes assets that are liquid such as stocks, bonds, and bank accounts, which would exclude primary residences and vehicles, while total wealth includes all wealth components. IRA wealth is not included in financial wealth but is included in total wealth.

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