



Aon Survey Shows True Cost of Pre-Retirement Lifestyle in the Golden Years

It's going to take a lot of green to keep the golden years comfortable. Thanks to some new research from Aon Consulting Worldwide, financial planners have a way to demonstrate to their clients the financial reality of maintaining their current lifestyle during retirement.

The 2008 Replacement Ratio Study, conducted by Aon Consulting and Georgia State University, shows the percentage of a worker's final annual salary that he needs to replace in order to keep the same standard of living in retirement. Financial planners can use this information to show their clients what they should be saving now and in the future based on their age, current salary, and other factors.

"Our 2008 Replacement Ratio Study truly illustrates the importance of saving and the overwhelming challenges that lie ahead for those who don't save adequately," said Cecil Hemingway, U.S. Retirement Practice leader with Aon Consulting.

For example, a worker earning \$50,000 at retirement will need to replace 81 percent of that amount each year to maintain his standard of living. Each year, this individual could receive 51 percent (\$25,500) from Social Security (including spousal benefits) and 30 percent (\$15,000) from an employer retirement plan and/or the worker's savings.

Of course, these percentages vary depending on final base salary. A worker earning \$150,000 at retirement, for instance, will need to replace 84 percent of that salary to continue his standard of living. Social Security will provide only 23 percent (\$34,500), while the employer retirement plan and/or worker's savings must supply the remaining 61 percent (\$91,500) annually.

The study also shows the number of years an average person should plan for retirement assets to last. If a married couple is comfortable with a 50 percent chance they will not outlive their assets, for instance, they need to plan for 27 years. If the couple were earning \$80,000 annually before retiring, then accumulating \$420,000 from an employer retirement plan and/or their own savings would allow them to maintain their standard of living.

"The most significant issue retirees will face moving forward is outliving assets," added Hemingway. "The convergence of medical advancements, enabling people to live longer, and worker apathy toward retirement savings is creating a 'perfect storm,' which may result in millions of Americans with little money left as they advance through their golden years."

Hemingway pointed out that while the Pension Protection Act of 2006 allows employees to be automatically enrolled in company retirement plans, the responsibility still rests with the employee to determine whether what he is saving through that plan is enough to ensure a well-funded retirement.

In addition, the study shows the percentage of a person's salary he needs to save annually until age 65, depending on at what age and salary level he begins saving. For example, a 25-year-old male earning \$30,000 who has not started saving for retirement will need to save at least 4.2 percent of his pay each year until 65.

"If you're saving now, make sure it's an appropriate amount, based on all factors," Hemingway said. "If you're not saving, start doing so today. It's never too late to start saving, but the later you start, the more you will need to save to make up for years of not doing so."

More detailed data, including replacement ratios translated into dollars, the number of years a retirement account should last, and the yearly savings as a percentage of pay for men and women, are available from Aon.