

Retirement policy in the U.S.: Does it facilitate people who want to save for retirement?

Jack VanDerhei,
EBRI Research Director

Is There a Future for Retirement?
EBRI-ERF Policy Forum #68

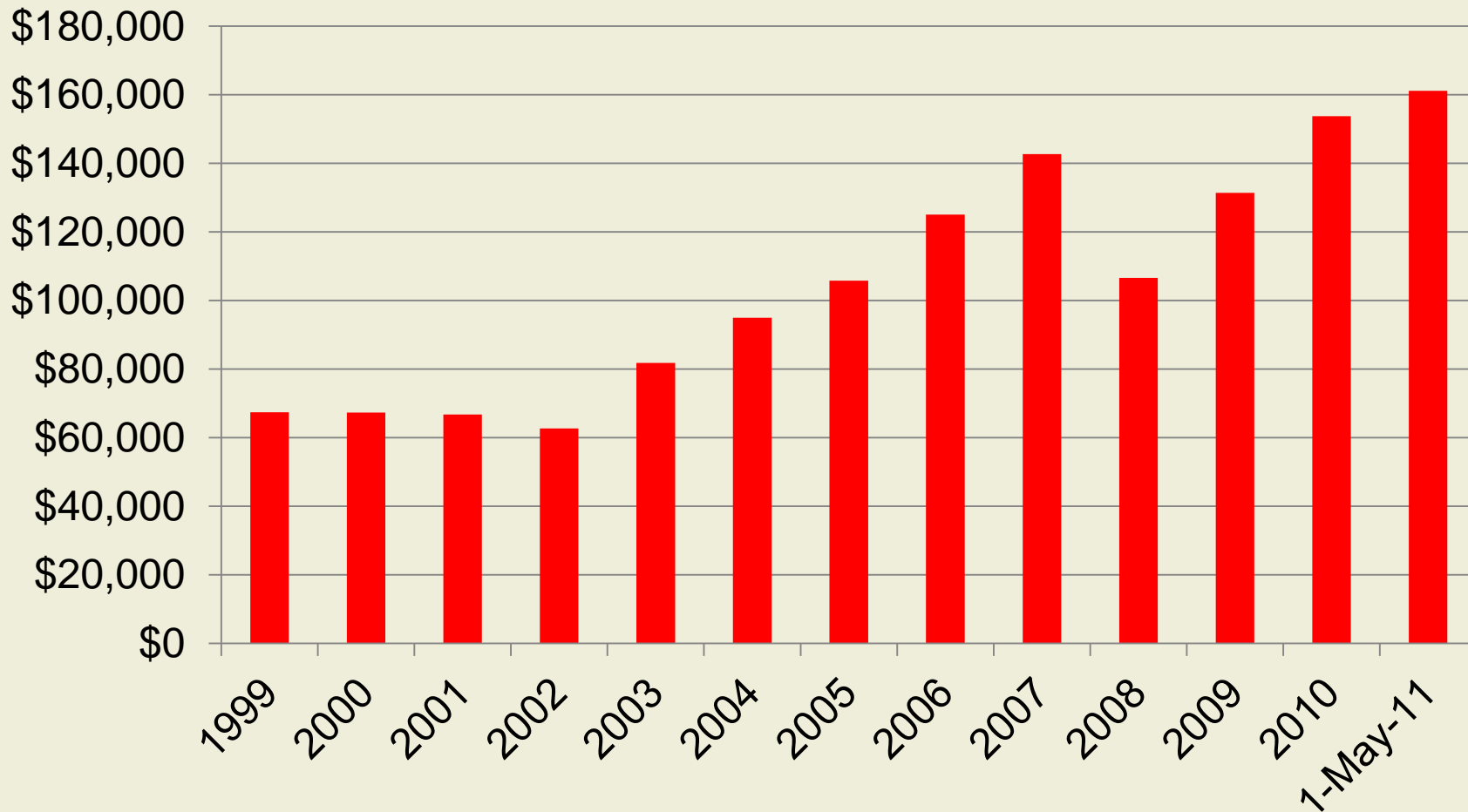
May 12, 2011

ebri.org
Employee Benefit
Research Institute

Questions to consider

- How have consistent 401(k) participants fared?
 - Why is it important to look at the consistent participants?
- Given current contribution and asset allocation behavior, what is the potential for retirement savings for those covered by 401(k) plans for an entire career?
- How would the 20/20 limits modify this?
 - National Commission on Fiscal Responsibility and Reform
 - Cap tax-preferred retirement contributions to lower of \$20,000 or 20% of income
- Would these results differ for automatic enrollment?

401(k) Account Balances^a Among 401(k) Participants Present From Year-End 1999 Through Year-End 2009 With Projections Through May 1, 2011^b

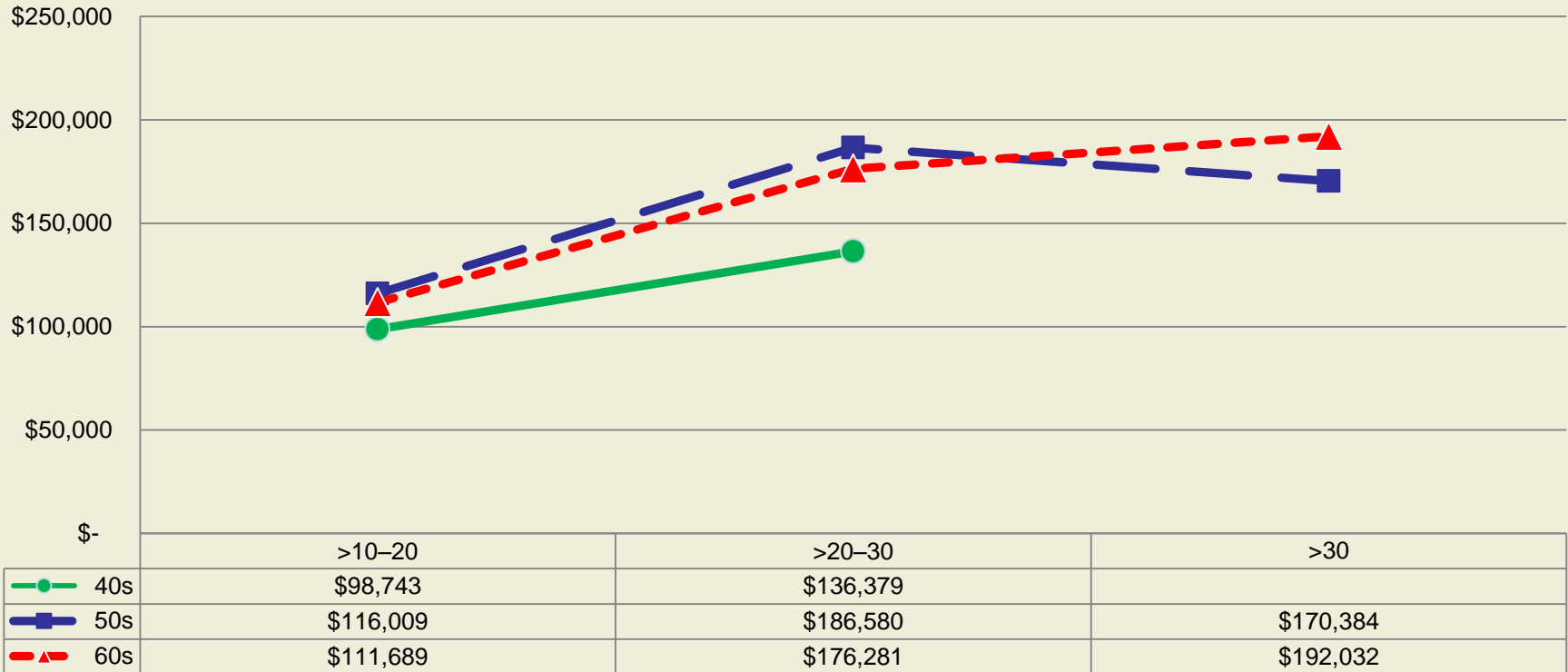


Source: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project.

^a Account balances are participant account balances held in 401(k) plans at the participants' current employers and are net of plan loans. Retirement savings held in plans at previous employers or rolled over into IRAs are not included.

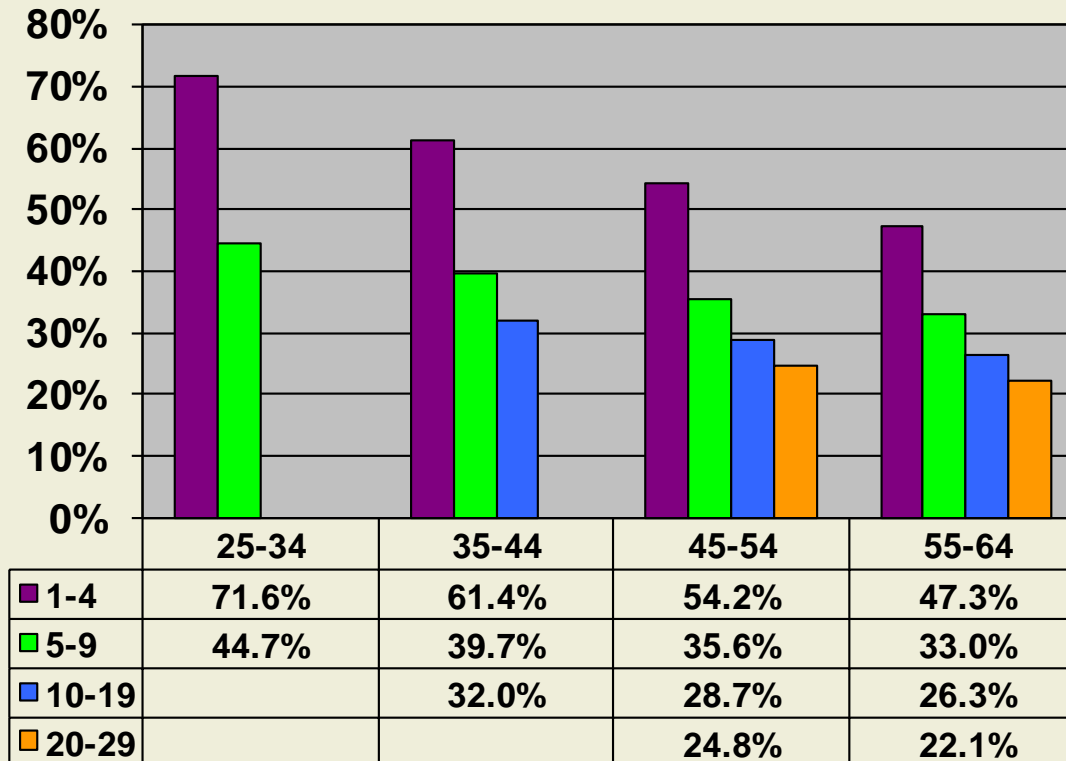
^b The analysis for 1999 through 2009 is based on a group of 1.6 million participants with account balances at the end of each year from 1999 through 2009. The values for 2010 and May 1, 2011 are EBRI estimates

Average Account Balances Among 401(k) Participants Present From Year-End 1999 Through Year-End 2009, by Age and Tenure



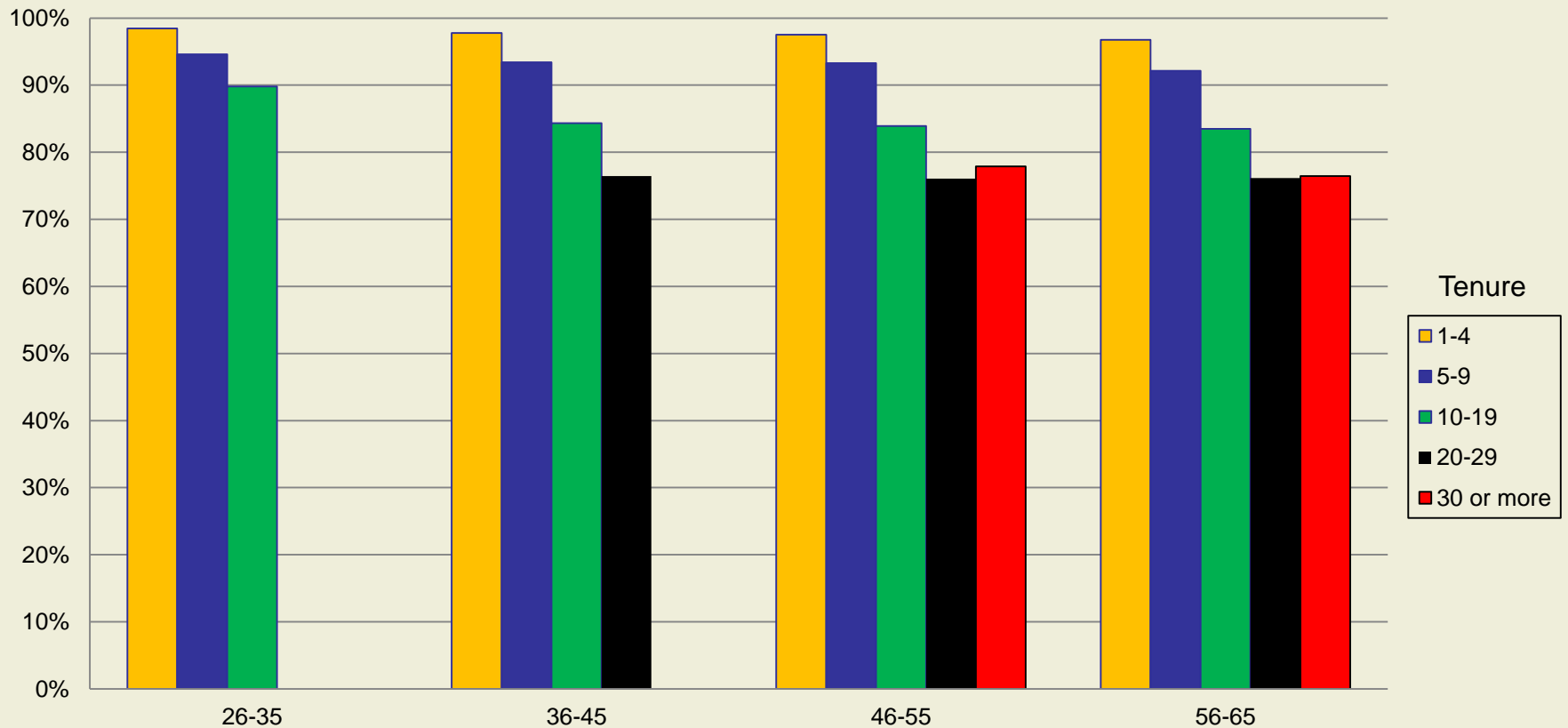
Source: Tabulations from the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. The analysis is based on a group of 1.6 million participants with account balances at the end of each year from 1999 through 2009. Age and tenure groups are based on participant age and tenure at year-end 2009.

Change In Average Account Balances (by Age and Tenure) From January 1, 2010 – May 1, 2011 Among 401(k) Participants with Account Balances as of Dec. 31, 2009



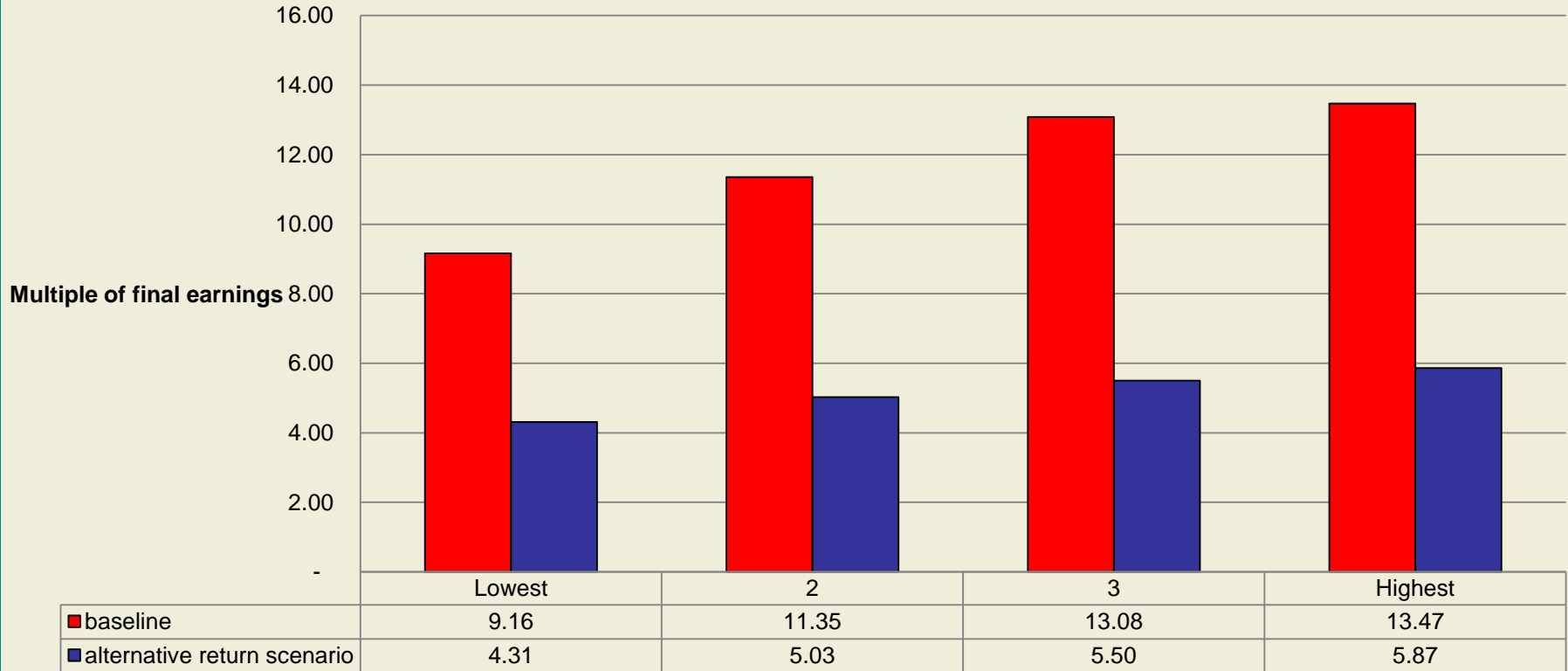
Sources: 2009 Account Balances: Tabulations from EBRI/ICI Participant-Directed Retirement Plan Data Collection Project; 2011 Account Balances: EBRI estimates. The analysis is based on all participants with account balances at the end of 2009 and contribution information for that year.

Percentage of participants who have more money in their 401(k) accounts on March 1, 2011 than at the market peak in October 2007, by age and tenure



Sources: EBRI estimates based on all participants with account balances at the end of 2007 through 2009 and contribution information for those years.

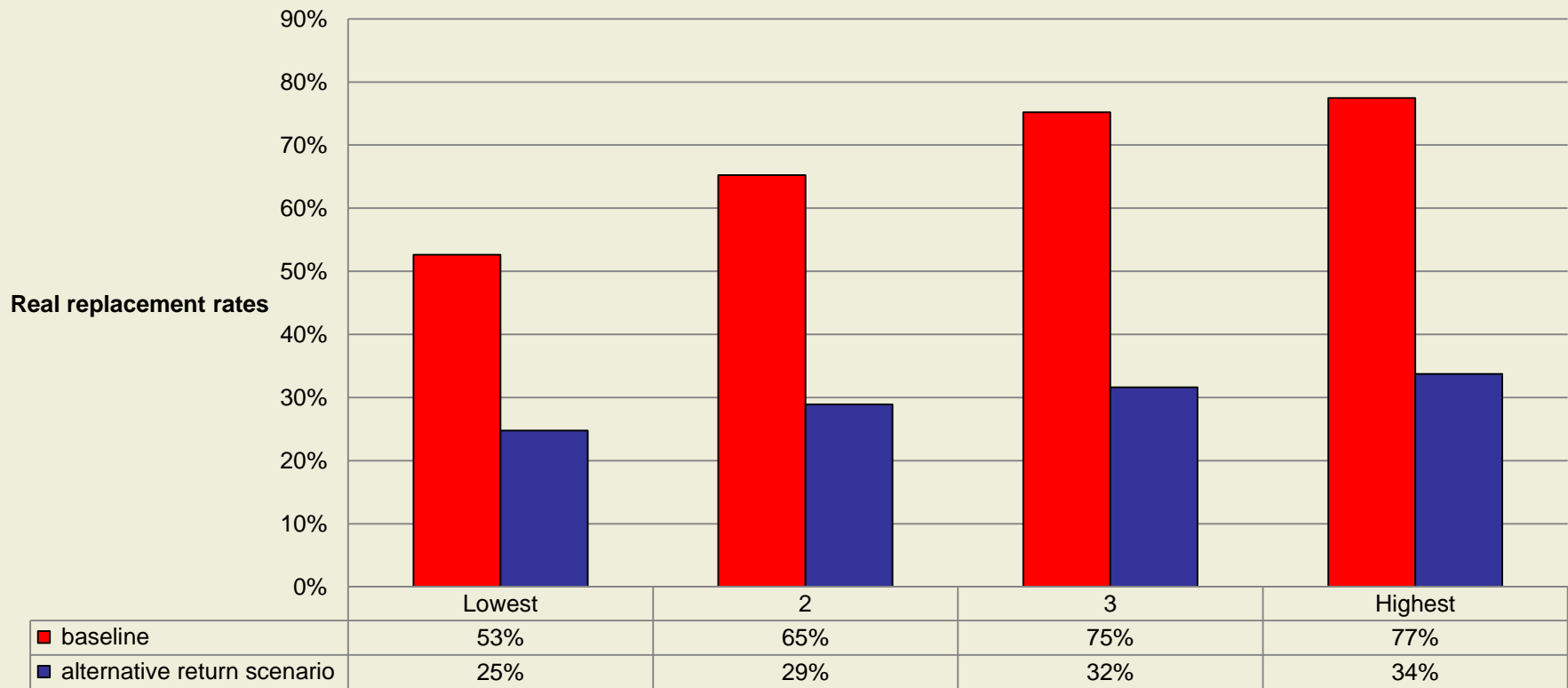
Median 401(k) account balances at age 67 (expressed as a multiple of final earnings) for participants currently ages 25-29 by income quartile



Source: EBRI Retirement Security Projection Model Version 110503c.

The simulated rates of return for the baseline and alternative return scenario are the same as in VanDerhei and Copeland (July 2010). This version of the analysis models 401(k) participants who are not automatically enrolled and assumes no job turnover, withdrawals or loan defaults. The full stochastic nature of the model will be included in future analysis.

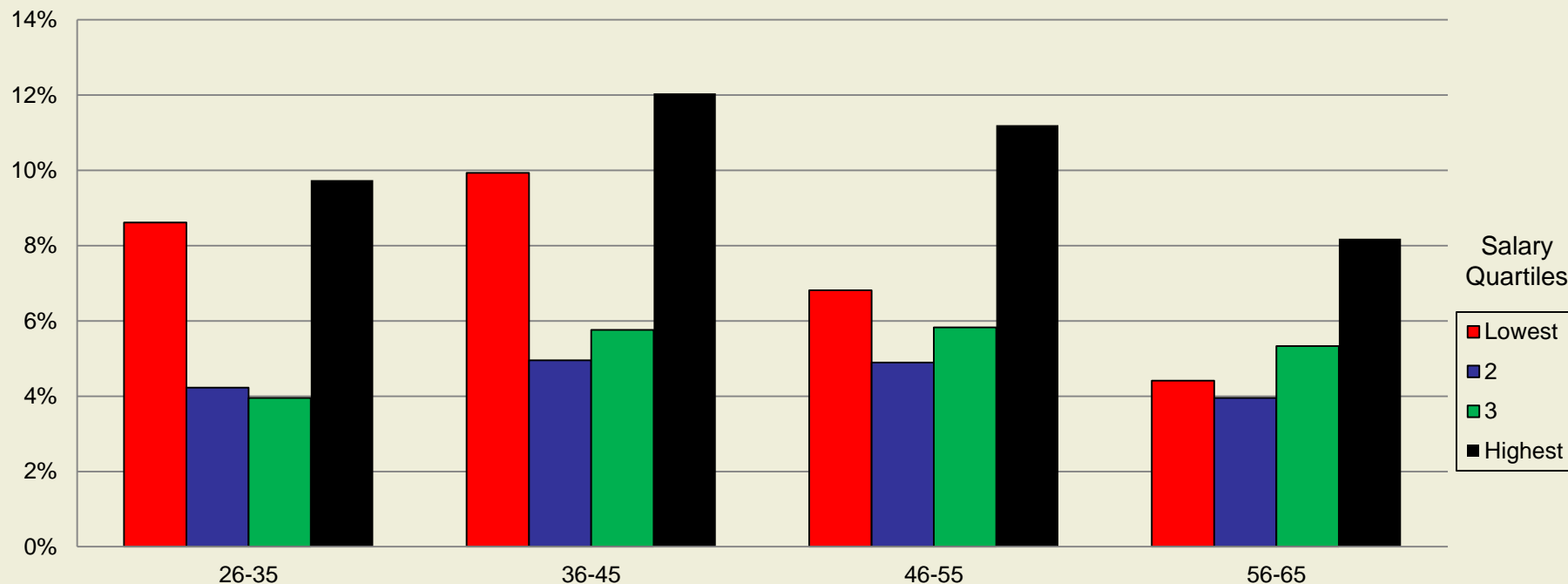
Median real replacement rates at age 67 from 401(k) balances for participants currently ages 25-29 by income quartile



Source: EBRI Retirement Security Projection Model Version 110503c.

The simulated rates of return for the baseline and alternative return scenario are the same as in VanDerhei and Copeland (July 2010). This version of the analysis models 401(k) participants who are not automatically enrolled and assumes no job turnover, withdrawals or loan defaults. The full stochastic nature of the model will be included in future analysis.

Average percent reductions in 401(k) account balances at Social Security NRA by imposing 20/20 limits in 2012, by age and age-specific salary quartiles



Source: EBRI Retirement Security Projection Model Version 110503c.

NB: this simulation only models the financial impact of the expected reduction in 401(k) contributions for employees who are not automatically enrolled by imposing the new limits and does not attempt to assess behavioral modifications on the part of either the plan sponsor nor the employees assumed to be eligible for participation in the plan. The simulated rates of return are the same as in VanDerhei and Copeland (July 2010). This version of the analysis assumes no job turnover, withdrawals

Would these results differ for automatic enrollment?

- The previous results assumed none of the participants were automatically enrolled
- Given the current modeling assumption of no job change, it would be very difficult to provide a valid comparison using automatic enrollment
 - Currently very little, if any, information that can be used to track what automatically enrolled participants with automatic escalation of contributions would do upon job change
 - For example: if a participant has already been escalated to 8 percent of compensation and upon job change was automatically enrolled into another 401(k) plan, would they “remember” where they had been or decrease contributions to the default rate of the new plan
- The EBRI/ICI Participant-Directed Retirement Plan Data Collection Project should allow at least preliminary data to inform these assumptions with the year-end 2010 analysis.

SUMMARY AND CONCLUSION

ebri.org

Employee Benefit
Research Institute