EBRI EMPLOYEE BENEFIT RESEARCH INSTITUTE

At a Glance | May 14, 2020

How the COVID-19 Pandemic Could Impact Retirement Income Adequacy for U.S. Workers

Using the EBRI Retirement Security Projection Model® (RSPM), we examined three different market assumptions.

The Retirement Savings Deficit[1] for All U.S. Households Before the COVID-19 Pandemic

$3.68 Trillion Retirement Deficit

Aggregate value of retirement savings deficits for all U.S. households, ages 35–64, as of January 1, 2020

IMPACT OF INVESTMENT LOSSES

Market volatility may be the largest factor during this crisis in increasing retirement deficits, especially under the pessimistic assumptions.

Projected Deficit Increase Due to the Current Pandemic Under Optimistic, Intermediate, and Pessimistic Market Loss Assumptions

	Increase in Deficit
Optimistic: Market Losses Restricted to *Half* of 1st Quarter 2020 Losses	$84.98 Billion / +2.3%
Intermediate: Market Losses Equivalent to 1st Quarter 2020 Losses	$136.43 Billion / +3.7%
Pessimistic: Market Losses Equivalent to 2007–2009 Financial Crisis Losses	$330.88 Billion / +9.0%

IMPACT OF BEHAVIORAL CHANGES

Match suspensions, reduced contributions, increases in withdrawals, and decreased eligibility do not have as much impact, though they could have a significant influence on individual households. Plan terminations would have the greatest impact on retirement income adequacy.

Increase in Retirement Deficits Above the $136.43 Billion Experienced in the Intermediate Market Loss Assumption

Scenario 1: Plan Sponsors Suspend Matches 20% Suspend Match for 1 Year	$2.09 Billion
Scenario 2: Scenario 1 + Reduced Contributions 20% Reduction of Contributions by Participants With Suspended Matches for 1 Year	$2.31 Billion
Scenario 3: Small Plan Terminations 40% of Plans With <$10 Million Terminating	$31.24 Billion
Scenario 4: One-Time Increase in Withdrawals 13.2% Increase in Withdrawals for 1 Year	$1.03 Billion
Scenario 5: Decrease in DC Eligibility 10% Decrease in Eligibility for 2 Years Due to Unemployment	$4.23 Billion

AGGREGATE IMPACT

The combined impact of all intermediate assumptions, although damaging, appears manageable. Even the combination of pessimistic assumptions only increased the aggregated retirement deficits by 11.2%.

Aggregate of Market Loss Assumptions Combined With Scenarios 1–5 Above

Optimistic Market Loss Assumption + Aggregate Impact of Optimistic Scenarios	$96.29 Billion / +2.6%
Intermediate Market Loss Assumption + Aggregate Impact of Intermediate Scenarios	$166.21 Billion / +4.5%
Pessimistic Market Loss Assumption + Aggregate Impact of Pessimistic Scenarios	$412.77 Billion / +11.2%

1. Retirement savings deficits are the present value of retirement deficits for those households simulated to run short of money in retirement.

SOURCE: Jack VanDerhei, "Impact of the COVID-19 Pandemic on Retirement Income Adequacy: Evidence From EBRI's Retirement Security Projection Model®," *EBRI Issue Brief*, no. 505 (Employee Benefit Research Institute, April 21, 2020).