For Immediate Release

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Retirement Income Adequacy for Younger Workers, Single Women Most Impacted by Presence and Absence of Defined Contribution Plans, EBRI Projects

Washington, D.C. – June 13, 2019 – A new study from the Employee Benefit Research Institute finds younger workers and single women's prospects for requirement income adequacy are the most impacted by the presence or absence of defined contribution (DC) Plans.

The *EBRI Issue Brief*, "Alternative Realities: The Impact of Extreme Changes in Defined Contribution Plans on Retirement Income Adequacy in America," examines the effect on retirement income adequacy for various cohorts of American households if DC retirement plans are either completely eliminated (worst case) or made universally available (best case). The study finds that under both scenarios, the youngest age cohort and single females would experience the largest change in retirement income adequacy.

The results are significantly greater for younger cohorts, since they would experience the best or worst case for a longer period. In the scenario in which defined contribution retirement plans were completely eliminated, the retirement deficits of those aged 35–39 were projected to increase 23 percent from $49,182 to $60,253. In comparison, the deficits of those ages 40–44 would increase 18 percent, while deficits of those ages 45–49 would increase by 13 percent. The average deficits for households above age 50 would increase by less than 10 percent.

In the best case scenario of universal coverage, average retirement deficits would *decrease* 24 percent from $49,182 to $37,506 for the youngest age cohort. Older cohorts would experience less of an impact, with deficits of those ages 40–44 projected to decrease 19 percent; deficits of those ages 45–49 would decrease 16 percent; and deficits of those ages 50–54 would decrease 12 percent. The average deficit for households above age 55 would decrease, but by less than 10 percent.

The results also found that under the universal defined contribution plan scenario, of those in the youngest cohort, the increase in average deficits is significantly larger for single females at $13,285 and single males at $11,690, versus other marital cohorts. At older ages, the impact of universal DC plans for single males is similar to that found for widows, but a universal DC plan scenario would be most beneficial to the single females.

"In recent years there have been a number of policy proposals that call into question the value of existing defined contribution plans," said Jack VanDerhei, EBRI Research Director and author of the study. "However, the suggested alternatives have not included a detailed analysis of the impact of terminating DC plans on retirement income adequacy for American households. This study is an important step in analyzing the pivotal role DC plans play in retirement security**.**"

It should be noted that this study was devoted specifically to analyzing the present values of retirement deficits. While this output metric may be preferred for public policy analysis focusing on retirement income adequacy, it actually masks much of the impact of the two scenarios analyzed in this *Issue Brief*. For example, when evaluating the impact of a universal defined contribution system, to the extent that a household was NOT simulated to run short of money in retirement under the baseline, increasing their access to an employer-sponsored defined contribution plan will not change their simulated retirement deficit (it will remain zero). EBRI has developed alternative output metrics during its analysis of Rothification proposals in 2017 and will apply them to these scenarios in a future *Issue Brief*.

To conduct this study, the author used the EBRI Retirement Security Projection Model,® which was developed to provide an assessment of national retirement income prospects. Over the years it has been enhanced to be able to model the impacts of defined benefit plan freezes and automatic enrollment provisions for 401(k) plans as well as the crises in the financial and housing markets from 2007–2009. The model reflects retirement readiness and average individual retirement deficits as well as aggregate deficits. It is able to project retirement savings by various age, tenure, gender, and marital status cohorts.

The study, "Alternative Realities: The Impact of Extreme Changes in Defined Contribution Plans on Retirement Income Adequacy in America," is available at www.ebri.org.

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