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FOR IMMEDIATE RELEASE: June 25, 2013

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New Research from EBRI:

Low Interest Rates Weigh on Retirement Readiness

WASHINGTON—As many retirees and workers have discovered, today's historically low interest rates are crimping their retirement savings. Now a new study by the nonpartisan Employee Benefit Research Institute (EBRI) quantifies the impact of a sustained low-interest rate environment on America's retirement readiness.

EBRI, using its proprietary Retirement Security Projection Model® (RSPM), found that more than a quarter of Baby Boomers and Gen Xers who would have had adequate retirement income under historical averages return assumptions are simulated to end up running short of money in retirement if today's historically low interest rates are assumed to be a permanent condition, if retirement income/wealth is assumed to cover 100 percent of simulated retirement expense.

The analysis reveals that the potential impact varies by income levels. "There appears to be a very limited impact of a low-yield-rate environment on retirement income adequacy for those in the lowest pre-retirement income quartile, given the relatively small level of defined contribution and IRA assets and the relatively large contribution of Social Security benefits for this group," said Jack VanDerhei, EBRI research director and author of the study. "However, there is a very significant impact for the top three income quartiles."

Among EBRI's findings:

- The impact is lessened if the current low rates are temporary. For example, when retirement readiness is based on the assumption that retirement income/wealth must cover 100 percent of expenses, 36 percent of Gen Xers with no future years of defined contribution eligibility would be predicted to have adequate retirement income if the zero-real-bond-return assumption is expected to last only for the first five years after retirement, compared with 35 percent if that environment persists for a decade. In contrast, 33 percent of this group would be predicted to have sufficient money in retirement if the zero-real-bond-return scenario is assumed to be permanent.
- The impact is magnified by years of future eligibility for participation in a defined contribution plan. For example, moving from the historical-return assumption to a zero-real-interest-rate assumption results in an 11 percentage-point decrease in simulated retirement readiness for Gen

Xers who have one to nine years of future eligibility, but that gap widens to a 15 percentage-point decrease in retirement readiness for those with 10 or more years of future eligibility.

- For the younger Gen X generation, the decline in retirement adequacy would range from 4 percentage points under a five-year, low-yield-rate environment, to 7 percentage points if rates remain depressed for 10 years, and 11 percentage points if those low rates are permanent, assuming they have one to nine years of remaining eligibility in a defined contribution retirement plan (such as a 401(k)).

The full report is published in the June 2013 *EBRI Notes,* "What a Sustained Low-yield Rate Environment Means for Retirement Income Adequacy: Results From the 2013 EBRI Retirement Security Projection Model,®" online at www.ebri.org

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