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New Research from EBRI:

Accurately Assessing Gen Xer Retirement Income Adequacy

WASHINGTON—Are Gen Xers in worse shape than the Baby Boom generation when it comes to having enough money for retirement? Not if you take into account future contributions and the current trends in automatic plan design features, according to the nonpartisan Employee Benefit Research Institute (EBRI).

A new report by EBRI notes that projections by some other organizations have alleged that Generation Xers (those born between 1965–1974) will have a smaller likelihood of generating adequate retirement income than their older Baby Boom cohort (those born between 1948–1964).

However, two studies in particular contain flawed assumptions or methodologies that exaggerate the plight of Gen Xers, according to EBRI. Specifically:

- A 2013 study published by Pew Charitable Trusts used data from the Panel Study of Income Dynamics to estimate median replacement rates by age cohort (assuming retirement at age 65) and shows a decrease in the median income replacement rate for Gen Xers at age 65 of 32 percentage points compared with Early Baby Boomers and 9 percentage points compared with Late Boomers. In other words, according to their findings, Gen Xers will achieve lower income replacement rates in retirement than will older Baby Boomers.

  However, the EBRI report notes the Pew analysis is flawed because it explicitly ignores future contributions to defined contribution plans, which EBRI research has shown will have a major positive impact on future retirement savings. EBRI's analysis concludes that ignoring decades of potential future contributions (as the Pew study does) exaggerates the percentage of Gen X workers simulated to run short of money in retirement by roughly 10 to 12 percentage points among all but the lowest-income group.

- Similarly, a 2012 study by the Center for Retirement Research (CRR) at Boston College estimated "at risk" ratings at age 65 by age group, concluding that 44 percent of households ages 50–59 at that time were "at risk," compared with 55 percent at risk among households ages 40–49 and 62 percent for those ages 30–39. Again, this study claimed the younger Gen X group is in worse financial shape for retirement than their older Baby Boomer group.

  However, the EBRI report notes the CRR report fails to consider significant plan design changes accelerated by the Pension Protection Act of 2006 which has led many 401(k) sponsors to adopt automatic enrollment features to their retirement plan (including auto-escalation of contributions). Auto-enrollment has been found to have a significant positive impact on retirement readiness, especially for lower-income workers.

"Recent studies by other organizations suggest Gen Xers will fare much worse than the Boomers in retirement. Unfortunately, these studies appear to be plagued by either explicitly ignoring future contributions to 401(k) plans or the recent auto-enrollment changes now found in many 401(k)-type plans," said Jack VanDerhei, EBRI research director and author of the report. "Calculating retirement income adequacy is very complex, and it's important to use reasonable assumptions and current data if you want credible results."

By comparison, EBRI's Retirement Security Projection Model® (RSPM) incorporates the crucial factor of future worker contributions to defined contribution retirement plans—as well as the impact of auto-enrollment and auto escalation in 401(k) plans.

One of the major findings in each of the annual EBRI RSPM studies since 2010 (which differs sharply from both the Pew and CRR conclusions) was that the overall retirement income adequacy prospects for Gen Xers were approximately the same as Early Boomers and Late Boomers.

The full report compares the EBRI model results in detail to both the Pew and CRR report. The article, "Contributory 'Negligence?' The Impact of Future Contributions to Defined Contribution Plans on Retirement Income Adequacy for Gen Xers," is published in the August *EBRI Notes,* online at www.ebri.org

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