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New Research from EBRI:

Calculating Retirement Savings Needs by Age, Gender, and Chance of Success

WASHINGTON—How much do workers need to have saved for retirement at different ages? And based on their age and income, how much needs to be contributed to their defined contribution plan to ensure a financially successful retirement?

New research from the nonpartisan Employee Benefit Research Institute (EBRI) helps answer these questions, at least for single males and females. Not surprisingly, results show that time counts: The earlier a person starts saving, the less they will need to put aside every year—and the longer they wait, they'll need to save more (often a lot more) to catch up. Because of their longer longevity, women typically will need to save more than men.

Using its Retirement Security Projection Model® (RSPM), EBRI calculated the savings amounts needed at different contribution rates, salary levels, and ages for both genders, for various probabilities that they **not** run out of money to pay for average expenses plus uninsured health care costs throughout retirement—the model's definition of a "successful" retirement. For simplification, the modeling currently excludes any net home equity or traditional pension income and does not factor in pre-retirement leakages or periods of non-participation.

"This analysis answers two key questions: How much do I need to save each year for a 'successful' retirement? How large do I need my account balance to be after saving for several years to be 'on-track' for a successful retirement given my future contribution rate?" said EBRI Research Director Jack VanDerhei, and author of the report.

"In essence, this allows one to pick which of three contribution rates they are most likely to choose for the future and then see how large their existing account balance would need to be at that age."

VanDerhei noted these questions cannot be answered by the commonly used "replacement rate" planning tool, which uses a percentage of income as an optimal savings goal. That's because the replacement rate method ignores such critically important risk factors as longevity (outliving one's savings), postretirement investment risk, and nursing home costs. By contrast, the RSPM® model includes those factors in its simulations.

The new EBRI analysis presents the required contribution rates for those starting to save at ages 25, 40, or 55. It also presents the minimum account balances required for those contributing to their plans at 4.5 percent, 9 percent, and 15 percent of salary, and shows how much they should have saved at a particular age threshold to be "on track" for a successful retirement. For instance, the EBRI analysis finds:

Savings Rates and Probability of Success

- For a 25-year-old single male (with no previous savings) earning $40,000 a year, with a total (employee and employer combined) contribution rate of 3 percent of his salary until age 65 would result in a 50–50 chance of retirement income adequacy; saving 6.4 percent of salary would boost his chances of success to 75 percent. Women that age would need more because of their longer lifespans.
- A 40-year-old male with no previous savings earning $40,000 would need a total contribution rate of 6.5 percent of salary just to have a 50–50 shot at a financially successful retirement, because he has less time to work and save. But saving 16.5 percent of salary would produce a 75 percent chance of success.
- A 55-year-old male making $40,000 with no previous savings would need a total contribution rate of as much a quarter of his salary (24.5 percent) to have a 50–50 chance of a successful retirement, again due to little time left in the workforce.

Minimum Account Balance

How much should a worker have saved by a particular age for a successful retirement? That depends on their salary, how much is being contributed to their defined contribution plan, and what odds they want for success. Again, the EBRI analysis breaks out the answers by those factors:

For instance, for a single male age 40 contributing 9 percent of salary:

- At *$20,000 a year,* he would need $14,619 already saved for a 50 percent chance of retirement success.
- At *$40,000 a year,* he'd need a minimum balance of $47,493 in savings for a 75 percent chance of success.
- At *$65,000 a year,* he'd need $4,616 of pre-existing savings for a 90 chance of success.

EBRI notes that the numbers will vary by individual: For those who are younger and have higher savings rates, the required pre-existing savings level goes down.

The full report, "How Much Needs to be Saved For Retirement After Factoring in Post-Retirement Risks: Evidence from the EBRI Retirement Security Projection Model,®" is published in the March 2015 *EBRI Notes*, online at www.ebri.org

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