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EBRI: Total National Retirement Income Deficit With Current Social Security Retirement Benefits Counted Is $4.6 Trillion, or a Per-Individual Average of $48,000; Nearly Double Without Social Security Benefits

WASHINGTON—The total aggregate national deficit in U.S. retirement income adequacy is an estimated $4.6 trillion—or about $48,000 per-individual average, according to congressional testimony today by the nonpartisan Employee Benefit Research Institute (EBRI).

Reflecting the importance of Social Security, the EBRI analysis finds that if Social Security retirement benefits were eliminated, the aggregate retirement income deficit would almost double, to $8.5 trillion, or an individual average of approximately $89,000.

EBRI's estimates are present values (stated in 2010 dollars) at age 65, and represent the additional individual average amount needed at age 65 to eliminate expected deficits in retirement. EBRI notes this aggregate deficit assumed that Americans will receive current-law Social Security benefits.

"These numbers show that the national retirement income deficit—which is already quite large—would almost double without current-level Social Security benefits," said Jack VanDerhei, EBRI research director, testifying at a hearing today by the Senate Committee on Health, Education, Labor and Pensions. His full testimony is on EBRI's website at http://bit.ly/b6yMXu; the committee's website for the hearing is at http://bit.ly/9A7V9T

EBRI's analysis is based on its unique Retirement Income Security Projection Model (RSPM®), which EBRI has developed since the late 1990s to estimate how much money Americans will need for "basic" expenses (food, shelter, etc.) and uninsured health care costs in retirement, and what financial resources they are likely to have at retirement age. Earlier this year, EBRI released its 2010 Retirement Readiness Rating,™ which showed the degree to which Baby Boomers and GenXers are likely to be "at risk" of running short of money in retirement.

For instance, as VanDerhei points out in his testimony, EBRI's RRR™ (RRR™) finds that 70 percent of households in the lowest one-third when ranked by preretirement income were classified as "at risk." EBRI's analysis also presents the percentage of compensation different groups would need in terms of additional savings to have a 50, 70, or 90 percent probability of retirement income adequacy.

Among the key points of VanDerhei's testimony:

- ***Retirement Income Deficit:*** The aggregate deficit number with the current Social Security retirement benefits is estimated to be $4.6 trillion, with an individual average of approximately

$48,000. If Social Security benefits were to be eliminated, the aggregate deficit would jump to $8.5 trillion and the average amount would increase to approximately $89,000.

- ***Retirement Plan Sponsorship and Participation:*** Among all of the 154 million Americans who worked in 2009, almost half—just over 49 percent—worked for an employer or union that sponsored a pension or retirement plan, and almost 40 percent participated in a plan. Among full-time, full-year wage and salary workers ages 21–64—those most likely to be offered retirement benefits— 54 percent of these workers participated in a retirement plan. EBRI's testimony documented that the likelihood of a worker participating in an employment-based retirement plan goes up sharply with employer size, and that many workers do not have retirement benefits because they don't work full time, they work at small firms that do not offer benefits, or they are very low-income.

- ***Importance of Social Security:*** Among the lowest-income households for Baby Boomers and Gen Xers, EBRI finds that 91 percent would be at risk of inadequate retirement income if they had no Social Security retirement benefits, compared with 76 percent at risk with current Social Security benefits. The other three higher-income quartiles also benefit from Social Security: Comparing the at-risk percentages with and without Social Security retirement benefits, 24–26 percent of households in the other three higher-income groups are saved from at-risk status by Social Security.

- ***Importance of the Employment-Based Benefits System:*** VanDerhei noted that if the expected retirement income generated by defined benefit pensions, defined contribution plans, and IRAs were to be eliminated, the at-risk percentages would be even larger than the scenario in which Social Security benefits were eliminated.

- ***Retirement Confidence:*** Not surprisingly, VanDerhei testified, these trends have clearly been reflected in the annual EBRI/MGA Retirement Confidence Survey, which has measured Americans' confidence in their ability to retire for 20 years. Sixteen percent of workers in the 2010 RCS say they are very confident they will have enough money to live comfortably throughout their retirement years. Forty-six percent are not too or not at all confident they will have enough money to live comfortably. While these rates have fluctuated, they hit their lowest levels ever recorded in 2009. Plus, those who say they are saving has not grown, and the percentage of workers who have virtually no money in savings and investments has increased over the past year.

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