



# EBRI News

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*New EBRI Research:*

## **State Governments Struggling to Prepare for Looming Retirement Shortfall**

WASHINGTON, DC—State governments are beginning to struggle with how to respond to the likelihood that a large number of today's public- and private-sector workers won't be able to afford even a modest standard of living in retirement, particularly if they get hit with major home health or nursing home bills.

State Medicaid systems are usually the system of last resort for home health and nursing home bills. State officials are increasingly concerned by studies suggesting the number of seniors in poverty will grow and that state expenses for care of the indigent elderly could explode, and that the rapidly growing federal budget deficit will leave states on their own if and when this retirement income crisis occurs.

Various state government participants from the Reforming States Group (a voluntary association of leaders in the legislative and executive branches of government from all 50 states) addressed these issues at in-depth meetings held in September in Boston and St. Louis, aided by health and retirement benefit experts, representatives of the Employee Benefit Research Institute (EBRI), which did the studies that quantify the potential shortfalls, and the Milbank Memorial Fund, which sponsored the sessions. A full report of the meetings is published in the November edition of *EBRI Notes*, "The Ticking Retirement Time Bomb: What State Governments Can Do," available at [www.ebri.org](http://www.ebri.org)

Previous analyses by EBRI have shown that if current patterns continue, there will be an annual shortfall of at least \$45 billion by 2030 between the amount retired Americans need to cover basic expenses (including long-term care expenses not covered by Medicaid) and what they are likely to have available, and that the decline of "traditional" defined benefit pension plans will have the largest impact on younger workers and families.

During the Reforming States Group discussions, several possible focal points were identified for state action, including:

- ▶ Creating benefit programs for state employees, particularly women with modest earnings, to assure that they don't become members of the vulnerable groups.
- ▶ Coming up with incentives that encourage workers to save an adequate amount for retirement and purchase long-term care insurance that would help individuals to finance their own care if it becomes required.

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- ▶ Enacting state policies that encourage private employers to sponsor benefit programs that provide retirement income adequacy.
- ▶ Providing and promoting more financial literacy education for residents of all ages, to prepare them for the greater responsibilities they are taking on as changes are being made in employment-based and government benefits.
- ▶ Promoting policies that encourage the annuitization of retirement savings (as opposed to lump-sum distributions of retirement savings), thereby increasing the likelihood that individuals will not outlive their assets in retirement.
- ▶ Convincing the federal government to take greater responsibility for retirees who ultimately require long-term care financed by the Medicaid program—or, in the alternative, at least allow the states greater flexibility in creating retiree assistance programs.

“State governments in particular will be on the front lines when many in the baby boomer generation discover they don’t have enough saved to cover even basic expenses in retirement,” said EBRI President and CEO Dallas Salisbury. “The more forward-thinking state officials realize this, and are beginning to wrestle with what to do about it. The uncovered costs of retiree health and nursing home care in retirement are a huge issue. States, as well as every American citizen, need to start thinking about what to do. Working forever is not an option for the millions that leave the workforce due to health problems and disability.”

EBRI is a private, nonprofit, nonpartisan public policy research organization based in Washington, DC ([www.ebri.org](http://www.ebri.org)). Founded in 1978, its mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI does not lobby and does not take positions on legislative proposals. EBRI receives funding from individuals, employers of all types, unions, foundations, and government.

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