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New Research from EBRI:

The EBRI Retirement Readiness Rating:™ What is Your Rating?

New Study Shows Wide Variations by Income and Time Eligible to Participate in a Defined Contribution Plan

WASHINGTON—With Americans living longer in retirement, the 2010 EBRI Retirement Readiness Rating™ released today shows dramatically high percentages of Americans—even in the upper-income categories—are likely to run short of money after 10 or 20 years of retirement.

The new analysis by the nonpartisan Employee Benefit Research Institute (EBRI) finds that more than two-fifths (41 percent) of Americans in the lowest preretirement income level will have insufficient resources to cover basic expenses and uninsured health costs after 10 years in retirement.

However, the EBRI study also finds that after 20 years of retirement, almost a third (29 percent) of those in the next-to-highest income level will run short of money, as will more than 1 in 10 (13 percent) of those in the highest-income level. Not surprisingly, those with the highest income are at the lowest risk of running short of money—but many in the highest income category still face significant risks of not being able to pay basic expenses and uninsured medical expenses for the remainder of their lives.

The EBRI Retirement Readiness Rating™ is based on EBRI's Retirement Security Projection Model® (RSPM), which the institute first used in 2003 to evaluate national retirement income adequacy. The newest version of the model factors in many new retirement plan changes, such as auto-enrollment and auto-escalation of contributions in 401(k) plans, as well as updates for financial market performance and employee behavior (based on a database of 24 million 401(k) participants).

This is the first time a national retirement model has been able to project when different cohorts of Americans, based on age and income, are likely to exhaust their retirement savings. For instance, it finds that nearly half of early Baby Boomers—those on the verge of retirement, currently ages 56 to 62—are at risk of not having sufficient income to pay for basic retirement expenditures and uninsured medical expenses, and nearly the same fraction of "Generation Xers" are in a similar position.

Among other things, the analysis provides the most detailed estimates yet published of how age, relative level of preretirement income, and eligibility for participation in a defined contribution plan (principally a 401(k) plan) affect the prospects of running short of money in retirement. It also shows how long early boomers' resources are likely to last in retirement.

Results appear in the July 2010 *EBRI Issue Brief,* written by EBRI Research Director Jack VanDerhei and senior research associate Craig Copeland. The complete methodology and assumptions used to arrive at the findings appear in the *Issue Brief,* available at www.ebri.org

"As the private-sector retirement plan system evolves from a largely paternalistic one to a system in which workers must make their own decisions, policymakers need to understand what percentage of the population is likely to fail to achieve retirement security under current conditions," said Jack VanDerhei, principal author of the study. "Even more important is to identify which of those households still have time to modify their behavior to achieve retirement security, and how they need to proceed. This analysis demonstrates that in ways we have not seen before."

Key findings from the EBRI Retirement Readiness Ratings™ :

How Long Money Will Be Enough in Retirement: The analysis shows how long early boomers' retirement money will not fall short, by preretirement income quartiles, assuming retirement at age 65. Again, those households with the highest income have the lowest levels of risk.

✓ The results after 10 years of retirement:
- **Lowest-income quartile:** 41 percent are likely to run short of money.
- **Next-lowest quartile:** 23 percent.
- **Third income quartile:** 13 percent.
- **Highest-income quartile**: 5 percent.

✓ After 20 years of retirement:
- **Lowest-income quartile:** 57 percent are likely to run short of money.
- **Next-lowest quartile:** 44 percent.
- **Third quartile:** 29 percent.
- **Highest-income quartile**: 13 percent.

Those "At Risk" of Running Short of Money, by Age: The 2003 and 2010 Retirement Readiness Ratings™ provide a baseline projection of being "at risk" of having insufficient income to cover basic retirement expenses, as well as uninsured health care costs, for three age groups:

	2010	**2003**
Early Boomers (now ages 56–62):	47.2 percent chance of being at risk	59.2 percent chance
Late Boomers (now ages 46–55):	43.7 percent chance	54.7 percent chance
Generation Xers (now ages 36–45):	44.5 percent chance	57.4 percent chance

The Pension Protection Act of 2006 led to widespread adoption of automatic enrollment and diversified default investments in 401(k) plans, leading to increases in participation rates, earlier account accumulations, and better long-term retirement preparation prospects.

When the results of the analysis are classified by future eligibility in a defined contribution plan, such as a 401(k), the differences in the "at-risk" percentages are quite large. For example, Gen Xers with no future years of eligibility have an "at-risk" level of 60 percent, compared with only 20 percent for those with 20 or more years of future eligibility.

An individual or family is considered to “run short of money” if their aggregate resources in retirement are not sufficient to meet aggregate minimum retirement expenditures—defined as a combination of basic expenses from the Bureau of Labor Statistics’ Consumer Expenditure Survey and some health insurance and out-of-pocket health-related expenses, plus expenses from nursing home and home health care expenses, at least until the point they are picked up by Medicaid.

While knowing the percentage of households that are “at risk” is obviously valuable, it does nothing to show how much additional savings is required to achieve the desired probability of success. Therefore, the analysis also models how much additional savings would need to be contributed from 2010 until age 65 to achieve adequate retirement income 50, 70, and 90 percent of the time for each household.

It is important, the analysis says, to understand that a retirement target based on averages (such as average life expectancy, investment experience, and health care expenditures in retirement) provides, in essence, a retirement planning target that has approximately a 50 percent “failure” rate. Adding the 70 and 90 percent probabilities allows more realistic modeling of a worker’s risk aversion. Results of this analysis appear in the *Issue Brief.*

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