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New Research from EBRI:

**Access to Work-Place Defined Contribution Retirement Plans
a Key Factor in Future Income Security**

WASHINGTON—New research from the nonpartisan Employee Benefit Research Institute (EBRI) shows that being eligible to participate in a defined contribution retirement plan at work is a key factor in whether workers will have enough money to afford basic expenses and cover uninsured medical care in retirement.

The EBRI research, based on its Retirement Security Projection Model (RSPM[®]), participant level data from the EBRI/ICI Participant-Directed Retirement Plan Database,[™] and the EBRI IRA Database,[™] finds that the “at-risk” level declines the longer workers are eligible to participate in a work-based defined contribution (DC) retirement plan.

For instance, looking at Gen Xer households (those born between 1965–1974) in the next-to-lowest income quartile, eligibility in a DC plan has a strong impact on retirement income adequacy: 58 percent of these households eligible for defined contribution plan participation less than one-quarter of future work years would be at risk at least 50 percent of the time, compared with only 21 percent for those eligible at least three-quarters of future work years.

“The results, especially for lower-income households, are due in large part to the importance of automatic enrollment and automatic escalation of contributions for 401(k) plans in future years,” said Jack VanDerhei, EBRI research director and author of the report.

EBRI’s analysis notes that retirement income adequacy in the future depends on a number of key factors, including among other things: the assumed retirement age, participation rates, employee contribution rates, employer matching formulae, employer nonelective contributions, asset allocation, job turnover, cashout rates, and rates of return.

However, VanDerhei said, “A crucial factor in workers’ ability to achieve future retirement income adequacy is their eligibility to participate in a defined contribution plan.” He noted that this finding has major implications for any policies that would decrease the percentage of workers eligible to participate in DC plans.

The full report appears in the April 2011 *EBRI Notes* “Retirement Income Adequacy: Alternative Thresholds and the Importance of Future Eligibility in Defined Contribution Retirement Plans,” online at www.ebri.org

The Employee Benefit Research Institute (EBRI) is a private, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions.

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