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New Research from EBRI:

Delaying Retirement Past 65 No Guarantee of Households Being Able to Afford Retirement

WASHINGTON—A new study released today by the nonpartisan Employee Benefit Research Institute (EBRI) finds that if Baby Boomers and Gen Xers delay their retirement past the age of 65, many of them still would not have adequate income to cover their basic retirement expenses and uninsured health care costs.

The research also shows that even if a worker delays his or her retirement age into their 80s, there is still a chance the household will be "at risk" of running short of money in retirement. However, the chance of success for retirement adequacy improves significantly as individuals reach their late 70s and early 80s.

A major factor that makes a difference in a person's ability to meet their basic expenses and uninsured health care costs in retirement, is the whether they are still participating in a defined-contribution retirement plan (such as a 401(k)) after the age of 65. The increase in the percentage of households that are predicted to have adequate retirement income as a result of defined contribution participation varies by several factors (such as retirement age and preretirement income level), but this factor makes at least a 10 percentage point difference in the majority of the retirement age/income combinations.

"Our research finds that many people may have to delay retirement far beyond age 65 to increase the probability that they have enough money to cover their retirement expenses at a comfortable level," said Jack VanDerhei, EBRI's research director and co-author of the report. "What really makes a positive difference, we found, is if people who continue to work after 65 also continue to contribute to a defined contribution retirement plan."

The analysis is based on data from EBRI's Retirement Security Projection Model® (RSPM). Developed in 2003, RSPM provides an assessment of national retirement income prospects. The 2011 version of RSPM adds a new feature that allows households to defer retirement age past age 65 in an attempt to determine whether retirement age deferral is indeed sufficiently valuable to mitigate retirement income adequacy problems for most households (assuming the worker is physically able to continue working and that there continues to be a suitable demand for his or her skills).

The full report appears in the June 2011 *EBRI Issue Brief*, "The Impact of Deferring Retirement Age on Retirement Income Adequacy," online at www.ebri.org

Since income before retirement is crucial to an individual's ability to be able to afford a comfortable retirement, the EBRI research looks at how working past age 65 affects different pre-retirement income groups:

- ***Lowest preretirement income quartile****:* For those in the lowest income group, only 29.6 percent of these households would have sufficient resources to avoid running short of money in retirement 50 percent of the time; however, this increases to 34.6 percent if retirement is deferred until age 67 and 46.5 percent if retirement is deferred until age 69. The incremental increase in the percentage of households in the lowest preretirement income quartile having at least a 50 percent probability of success levels off for several years (in large part due to the elimination of the delayed retirement credits under Social Security) but then picks up again after age 75. Approximately one-half (49.1 percent) of the lowest preretirement income quartile households retiring at age 75 would have at least a 50 percent probability of success, but that increases to 61.7 percent at age 80, and 90.2 percent at age 84.

- **Second preretirement income quartile:** For this group, less than a quarter (23.5 percent) of households would have a 70 percent probability of adequate income if they retired at age 65. This increases to 36.5 percent if they keep working to age 69.

- **Third preretirement income quartile:** For those households in the next-to-highest income group, almost half (49.1 percent) would have a 70 percent probability of adequate income if they retired at age 65. This increases to 60.5 percent if they keep working to age 69.

- **Highest preretirement income quartile:** Three-quarters (75.9 percent) of households in the highest preretirement income quartile are likely to have adequate income for retirement if they retired at age 65. This increases to 81.1 percent if they keep working to age 69.

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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