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New Research from EBRI:

401(k) Eligibility Key Driver in Retirement Readiness

WASHINGTON—Eligibility for participation in a workplace 401(k) savings plan is one of the single-most important factors in closing the retirement savings gap for Generation X, according to a new report by the nonpartisan Employee Benefit Research Institute (EBRI).

But for Gen Xers trying to calculate how much they will need in retirement, EBRI also finds that taking potential nursing home and home health care expenses into account is crucial to a realistic estimate of retirement savings needs.

EBRI, which has extensively measured retirement readiness levels using its Retirement Security Projection Model™ (RSPM) since its launch in 2003, recently focused on Gen Xers (those born between 1965–1974).

Earlier EBRI research has found that, overall, about 44 percent of both Baby Boomer and Gen Xer households are likely to be at risk of running short of funds during retirement, assuming they retired at age 65 and retained any net housing equity in retirement until other financial resources were depleted.

However, EBRI's modeling reveals great variability in that overall percentage, with a key factor being how long a Gen X worker will be eligible to participate in a defined contribution retirement plan such as a 401(k):

- For those with no future years of eligibility, the average retirement savings shortfall is projected to be approximately \$78,000 per individual.
- Those Gen Xers with at least 20 years of future eligibility are projected to have an average financial shortfall at retirement of approximately \$23,000.

The inclusion of nursing home and home health care costs is a crucial factor in calculating realistic retirement expenses because, while those events will not be experienced by all households, or experienced to the same extent, they can have catastrophic financial consequences for a household's retirement income adequacy. Unlike many other models, that impact is already incorporated in the RSPM results.

For example, with nursing home and home health care expenses modeled, 68 percent of single male Gen Xers are projected to have no financial shortfall in retirement. On the other hand, if these expenses are ignored, more than 90 percent of this group would appear to have no projected shortfall.

“Ignoring the impact of nursing home and home health care costs in retirement significantly overstates the likelihood of retirement income adequacy,” said Jack VanDerhei, EBRI research director and author of the report. “Any realistic calculation of retirement needs has to include those expenses.”

The full report is published in the June 2012 *EBRI Notes*, “Retirement Readiness Ratings and Retirement Savings Shortfalls for Gen Xers: The Impact of Eligibility for Participation in a 401(k) Plan,” online at www.ebri.org

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