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New Research from EBRI:

Access to 401(k) Plan a Big Boost to Retirement Income Adequacy

WASHINGTON—Whether or not American families have access to a defined contribution retirement plan—primarily a 401(k)-type of plan—has "a significant positive impact" on reducing the additional savings they will need to achieve retirement income adequacy, according to a new analysis by the nonpartisan Employee Benefit Research Institute (EBRI).

The analysis builds on EBRI's unique Retirement Security Projection Model® (RSPM) to determine how much households need to save each year until retirement to maintain a probability level they will be able to afford simulated retirement expenses for the remainder of the lifetime of the family unit.

Generally, the analysis shows that younger workers (those with longer eligibility to participate in a 401(k) plan) would need to save less additional compensation per year to achieve retirement income adequacy—although how much depends largely on age, level of income, and whether they want an average (50 percent) or higher chance of success (such as 70 or 90 percent).

For instance, the EBRI analysis finds that for GenXers in the lowest-income quartile, the median (mid-point) additional compensation needed to be saved varies from 9.5 percent per year for those simulated to have no future eligibility in a 401(k) plan to 4.4 percent for those who have at least two-thirds of their future working years eligible in a 401(k) plan—meaning the required additional savings would be reduced by more than half for those with long eligibility.

The EBRI model focuses on Early Baby Boomers (those born between 1948 and 1954), Late Boomers (those born between 1955 and 1964), and Gen Xers (those born between 1965 and 1974). The new analysis combines simulated retirement income and wealth with simulated retiree expenditures to determine how much each household would need to save each year until retirement (as a percentage of current wages) to maintain a prespecified "comfort level" (i.e., probability level) that they will be able to afford the simulated expenses for the remainder of the family unit's lifetime.

It notes that the overall impact of defined contribution plans on retirement income adequacy in the future will depend on a number of key factors, including, among other things: participation rates, employee contribution rates, employer matching formulae, employer nonelective contributions, asset allocation, job turnover, cashout rates, and rates of return. Each of these factors is modeled in the EBRI RSPM.

"A crucial factor in workers' ability to achieve future retirement income adequacy is their eligibility to participate in a defined contribution retirement plan," said Jack VanDerhei, EBRI research director and author of the analysis.

Full results are published in the September issue of *EBRI Notes*, available online at http://bit.ly/b7d6VR, and titled "Retirement Income Adequacy for Today's Workers: How Certain, How Much Will It Cost, and How Does Eligibility for Participation in a Defined Contribution Plan Help?"

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