EBRI FAST Facts

July 18, 2019, #333

The Impact of Proposed Coverage Enhancements on Retirement Income Adequacy

How much might some of the recent legislative proposals for expanding access to employer-sponsored retirement plans improve retirement income adequacy for current workers? EBRI's July 11, 2019, *Issue Brief* [1] examined this by simulating the impact of some of the more important aspects of current legislative proposals, including:[2]

- Requiring retirement plans for all but the smallest employers.
- Covering part-time employees.
- Introducing auto portability.
- Providing the option of guaranteed income for life from 401(k) and 403(b) plans.
- Allowing open multiple employer plans (MEPs).
- Modifying required minimum distributions.

> EBRI's simulations are performed using the Retirement Security Projection Model® (RSPM). The model's accumulation module reflects the real-world behavior of 27 million 401(k) participants as well as 20 million individuals with individual retirement accounts.

EBRI's research[3] has shown that eligibility for participation in a defined contribution (DC) plan can have a significant impact on reducing Retirement Savings Shortfalls.[4] The analysis considers all workers (both eligible and ineligible) and gives the average individual retirement income deficits by the number of future years of eligibility for coverage in a defined contribution retirement plan. The deficit value for those in the youngest cohort (ages 35–39) assumed to have no future years of eligibility (as if they were never simulated to be employed in the future by an organization that provides access to those plans) is $78,046 per individual. That shortfall decreases substantially to $44,546 for those with one to nine years of future eligibility and even further to $27,830 for those with 10–19 years of future eligibility. Households in this age cohort fortunate enough to have at least 20 years of future eligibility in those programs have their average shortfall at retirement reduced to only $14,638. In other words, workers ages 35–39 with no future eligibility in a DC plan have a deficit more than five times higher than those with at least 20 years of future eligibility.

The following figure shows the reduction in retirement deficits by age for three different coverage enhancements.

Enhancement A assumes all employers are required to offer DC plans, save those with fewer than 10 employees. This analysis assumes that all new plans would be auto-IRAs with a 6 percent default contribution rate that escalates by 1 percent per year until it reaches 10 percent of pay. Based on experience observed from OregonSaves,[5] a 30 percent opt-out is assumed for all new eligibles.

- As expected, the youngest age cohort (35–39) would have the largest benefit — a 15.2 percent decrease in retirement deficit — since they would be exposed to the enhanced coverage for a long period of time.
- Those in the 40–44 age cohort are simulated to have a 12.4 percent reduction in deficit.
- Those 45–49 are simulated to have a 10.3 percent reduction in deficit.

© 2019, Employee Benefit Research Institute, 1100 13th St. NW, Washington, DC 20005, 202/659-0670 www.ebri.org

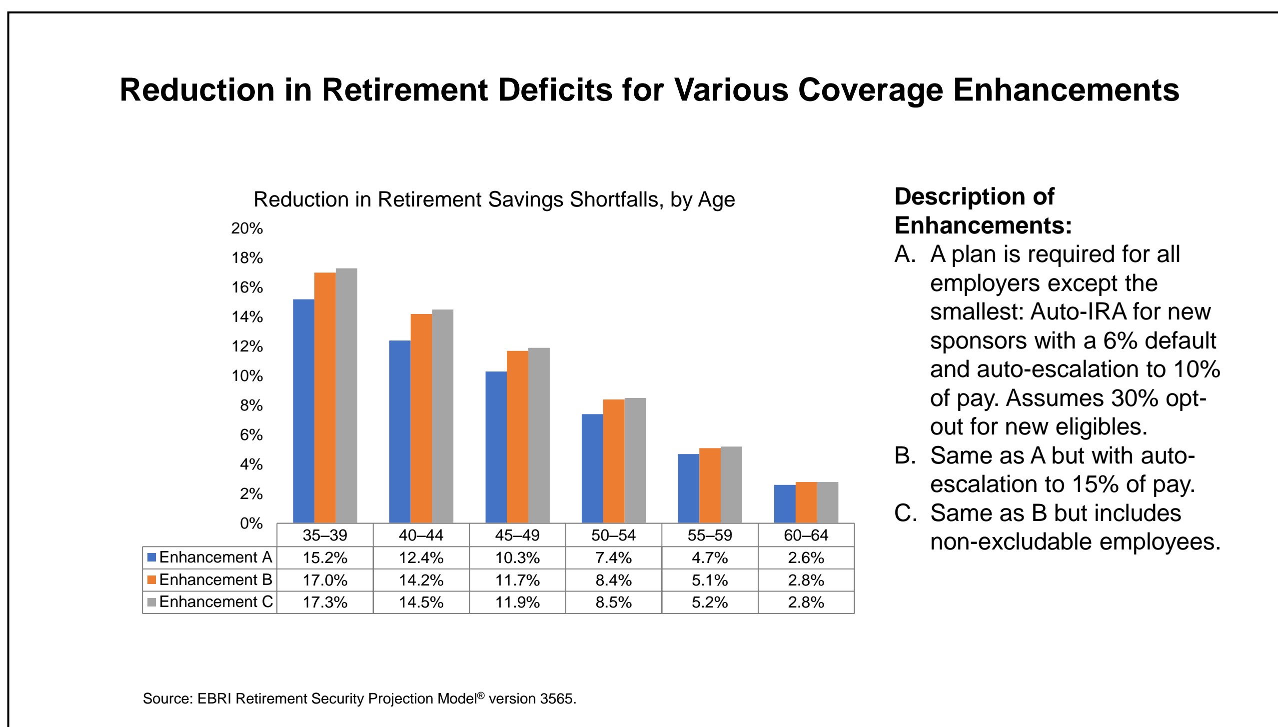
- Cohorts over 50 are also simulated to have reductions in retirement deficits; however, the reductions are less than 10 percent.

Enhancement B is similar to Enhancement A but with a cap on auto-escalation of 15 percent of pay.

- In this case, the youngest cohort (those ages 35–39) is simulated to have a 17.0 percent reduction in retirement deficit.
- Those in the 40–44 age cohort are simulated to have a 14.2 percent reduction in deficit.
- Those ages 45–49 are simulated to have an 11.7 percent reduction in deficit.
- Cohorts over age 50 are also simulated to have reductions in retirement deficits that are less than 10 percent.

Enhancement C is similar to Enhancement B, except that all non-excludable employees are covered.[6]

- In this case, the youngest cohort (those ages 35–39) is simulated to have a 17.3 percent reduction in retirement deficit.
- Those in the 40–44 age cohort are simulated to have a 14.5 percent reduction in deficit.
- Those 45–49 are simulated to have an 11.9 percent reduction in deficit.
- Cohorts over age 50 are simulated to have reductions in retirement deficits, but they are still less than 10 percent.



	35–39	40–44	45–49	50–54	55–59	60–64
Enhancement A	15.2%	12.4%	10.3%	7.4%	4.7%	2.6%
Enhancement B	17.0%	14.2%	11.7%	8.4%	5.1%	2.8%
Enhancement C	17.3%	14.5%	11.9%	8.5%	5.2%	2.8%

By quantifying the impact of potential changes, EBRI allows plan sponsors, providers, and policymakers to better understand their ramifications. This, in turn, can lead to better decision-making that affects the lives of millions of American workers.

The EBRI report, "Under the Dome – A Closer Look at Legislative Proposals Impacting Retirement," is published as the July 2019 *EBRI Issue Brief*, and is available online here.

The Employee Benefit Research Institute is a private, nonpartisan, 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. The work of EBRI is made possible by funding from its members and sponsors, which include a broad range of public, private, for-profit and nonprofit organizations. For more information go to www.ebri.org or connect with us on Twitter or LinkedIn.

---

[1] Jack VanDerhei. "Under the Dome – A Closer Look at Legislative Proposals Impacting Retirement," *EBRI Issue Brief*, no. 486 (Employee Benefit Research Institute, July 11, 2019).

[2] As such, the analyses in the *Issue Brief* were not specific to any one legislative proposal and certainly were not meant to represent the entirety of any single proposal. Instead, the impact of these items (either by themselves or in combination with others) was analyzed to provide a quantitative estimate on the impact on retirement income adequacy.

[3] Jack VanDerhei. "Retirement Savings Shortfalls: Evidence from EBRI's 2019 Retirement Security Projection Model,®" *EBRI Issue Brief*, no. 475 (March 7, 2019).

[4] The Retirement Savings Shortfalls (RSS) are determined as a present value of retirement deficits at age 65.

[5] For additional detail on OregonSaves, see Jack VanDerhei. "How Much Would OregonSaves Decrease Retirement Deficits in Oregon? Preliminary Evidence," *EBRI Fast Facts*, no. 317 (Employee Benefit Research Institute, October 15, 2018).

[6] The only employees not required to be covered are:

- Employees who have not attained age 21.
- Employees subject to a collective bargaining agreement.
- Nonresident aliens with no U.S.-source income.
- Employees until they have attained (1) a year of service (generally a year in which the employee has at least 1,000 hours of service), or (2) two consecutive years in which the employee has at least 500 hours of service.

###