

At a Glance

Assessing How Well Workers are Doing in Their Race to Retirement

Is there a retirement crisis in America and what can be done about it? EBRI's RSPM® (Retirement Security Projection Model) shows the importance of getting the assumptions correct as policy-makers evaluate the current system and propose ways to improve it. In other words, it shows how well workers are doing in their race to retirement security, and how policies and scenarios could help get them over the finish line.

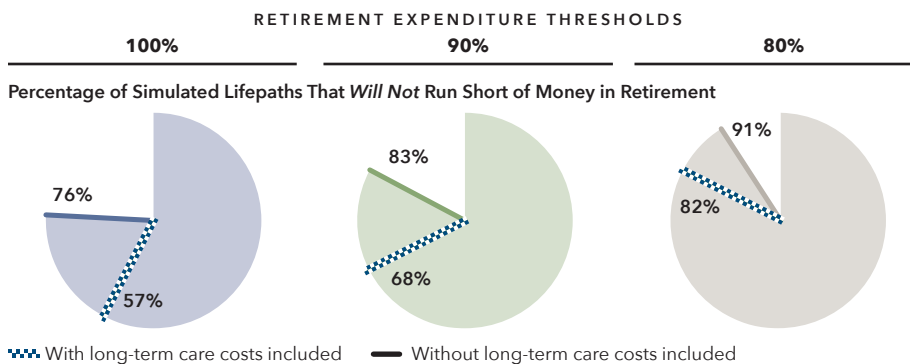
Assumptions Matter

Two key assumptions for understanding America's potential retirement deficit are the amount of expendituresⁱ covered in retirement and whether or not long-term care costs are included in the equation. For example, assuming individuals seek to cover 100% of the average costs experienced by retirees and long-term care costs are included in the analysis,

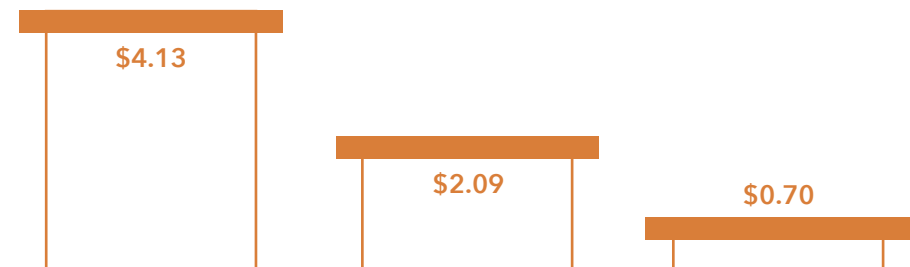
RSPM finds that:

- 57.4% of households currently ages 35-64 are simulated to not run short of money in retirement. However, if long-term care costs are taken out of the equation, that rises to three quarters.
- Further, if retirement expenditures are reduced to 80% of the average, most (82.1%) are simulated to not run short. That rises to more than 90% if long-term care costs are excluded from the analysis.

Retirement Readiness and Retirement Savings Shortfalls for Households Headed by Individuals Ages 35-64



Retirement Savings Shortfalls with Long-Term Care Costs Included, by Expenditure Thresholds (Trillions of Dollars)



Assumed Impact on Retirement Deficit is Significant

Changes in the assumptions have a significant impact on the simulated retirement deficit or the hurdle workers face in pursuing retirement security.

- Assuming 100% of the average retiree costs are covered and long-term care costs are factored in, the 43% of Americans who are simulated to run short of money in retirement equate to an aggregate retirement savings shortfallⁱⁱ of \$4.13 trillion.
- If the retirement expenditure threshold is reduced to 80% of the average, the simulated retirement saving shortfall drops to less than \$1 trillion.

Importance of the Current DC System

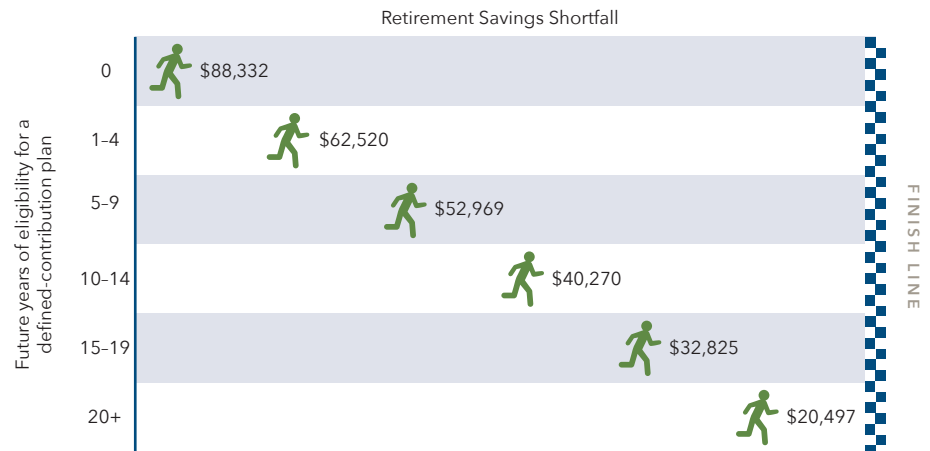
RSPM demonstrates the importance of access to an employer-sponsored retirement plan in reaching the retirement finish line. For workers ages 35-39 that have no future eligibility in a defined contribution (DC) plan, the average retirement deficit is approximately \$88,000 per individual. That drops to \$20,000 for individuals with 20 or more years of eligibility. In other words, the longer workers have to save in a DC plan, the closer they may get to the retirement security finish line.

Evaluating Reform Proposals Using RSPM

There have been a number of proposals to reform the retirement system. RSPM can be used to model how such proposals and scenarios might reduce retirement savings shortfalls under various scenarios. It shows which has the greatest potential for getting workers closest to the retirement security finish line.

Auto IRA: The Obama Budget proposed an auto IRA solution with employees enrolled at a 3% deferral rate. RSPM projects that under this plan, those currently getting them that much closer to the finish line.

Average Retirement Savings Shortfalls for Households Headed by Individuals Ages 35-39 with Long-term Care Costs Included



Percentage Reductions in Retirement Savings Shortfalls for Households Headed by Individuals Ages 35-39

Auto IRA (assumes no opt-out)



ARPA (assumes no opt-out)



Universal defined-contribution scenario (empirical contribution and opt-out rates)



*Automatic Retirement Plan Act of 2017 (ARPA)*ⁱⁱⁱ: This proposal would auto enroll people at 6% of pay, with automatic escalation at 1% per year up to 10% of pay. RSPM projects a 23.4% reduction in retirement deficits for those currently ages 35-39 under this plan.

Universal DC System^{iv}: This scenario assumes all employers not currently offering a DC plan would

do so. Rather than simplistically presuming a single stylized defined contribution plan for employers regardless of size, this analysis assumes employers will choose a type of plan and a set of generosity parameters similar to employers in their size range. Under such a plan, the simulated retirement deficits for those currently ages 35-39 would be reduced by 28.2%.

About RSPM

EBRI launched a major project to provide retirement income adequacy measurement in the late 1990s to simulate households through retirement age, taking into account Social Security, DC balances, IRA balances, defined benefit annuities and/or lump-sum distributions, net housing equity.

In RSPM, a household is considered to “run short of money,” or to experience a retirement savings shortfall, if its resources in retirement are not sufficient to meet average deterministic retirement expenditures plus uncovered long-term care expenses from nursing homes and home health care.

For all of the assumptions around RSPM and this analysis, see the Issue Brief: *EBRI Retirement Security Projection Model® (RSPM)—Analyzing Policy and Design Proposals, June 2018, #451.*

ⁱRetirement Expenditures are defined as a combination of deterministic expenses from the Consumer Expenditure Survey (as a function of income) and some health insurance and out-of-pocket, health-related expenses, plus stochastic expenses from nursing-home and home-health care (at least until the point such expenses are covered by Medicaid). The Retirement expenditure thresholds are the percentage of the average deterministic expenses assumed to be spent in retirement.

ⁱⁱRetirement Savings Shortfalls are equal to the present value of simulated retirement deficits at retirement age.

ⁱⁱⁱARPA is a proposal under which all but the smallest employers would be required to offer plans. Generally, all employees who have attained age 21 would be required to be covered by the plan, including new, part-time workers. The plans would be required to incorporate the following provisions, provided that certain existing plans would be grandfathered: automatic enrollment at 6%; automatic enrollment triennially at 6%; automatic contribution escalation at 1% per year up to 10%, i.e., 6% to 7% to 8% to 9% to 10%.

^{iv}Universal DC Scenario is a scenario that assumes all employers not currently offering DB and/or DC plans start sponsoring a DC plan immediately. Rather than simplistically presuming a single stylized defined contribution plan for employers regardless of size, this analysis assumes employers will choose a type of plan and a set of generosity parameters similar to employers in their size range.