



Under the Dome – A Closer Look at Legislative Proposals Impacting Retirement

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Outline of presentation

- Background
 - EBRI Retirement Security Projection Model®
 - Average retirement deficits by age; with and without reductions in Social Security benefits (starting in 2034)
 - Average retirement deficits by age and future eligibility for DC plans
- Components modelled for today's presentation
 - Plan/coverage enhancements
 - Mandatory coverage for all employers except the smallest (but with auto IRA for new sponsors)
 - Increase auto escalation limit from 10 to 15 percent
 - Include part-time employees
 - Auto-portability
 - Guaranteed income for life
 - Open MEPs
 - Impact of Required Minimum Distribution modifications
- Key take-aways
- Appendix

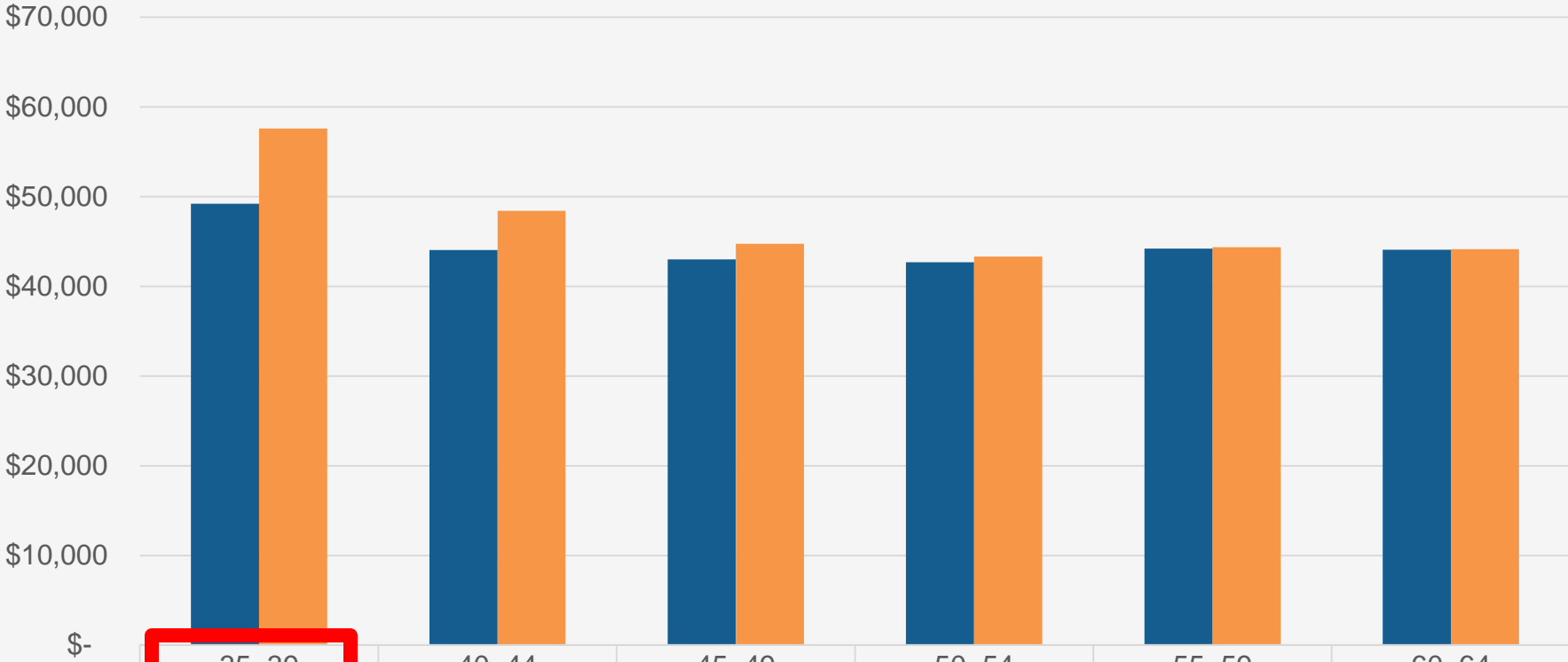
BACKGROUND

EBRI Retirement Security Projection Model®

- Accumulation phase
 - Simulates retirement income/wealth for households currently ages 35-64 from defined contribution, defined benefit, IRA, Social Security and net housing equity
 - Pension plan parameters coded from a time series of several hundred plans.
 - 401(k) asset allocation and contribution behavior based on individual administrative records
 - Annual linked records dating back to 1996
 - More than 27 million employees in 110,000 plans
 - More than 25 million IRA accounts owned by 20 million unique individuals
- Retirement phase
 - Simulates 1,000 alternative life-paths for each household, starting at 65
 - Deterministic modeling of costs for food, apparel and services, transportation, entertainment, reading and education, housing, and basic health expenditures.
 - Stochastic modeling of longevity risk, investment risk, nursing facility care and home based health care.
- Produces the following output metrics:
 - **Retirement Readiness Rating (RRR) = Percentage of simulated life-paths that do NOT run short of money in retirement**
 - **Retirement Savings Shortfalls (RSS) = Present value of deficits for those who run short of money in retirement**
 - **Aggregate deficit for all households ages 35-64 = \$3.8 trillion (2019 dollars)**

Average retirement deficits by age; with and without reductions in Social Security benefits (starting in 2034)

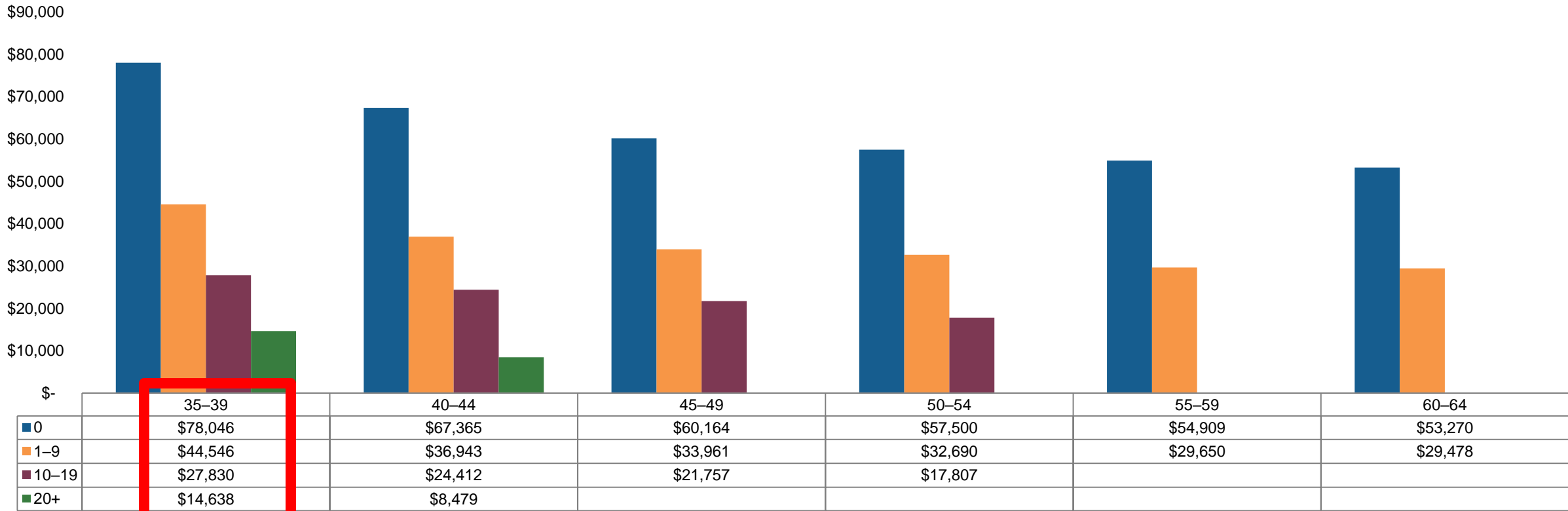
Average Retirement Savings Shortfalls



	35-39	40-44	45-49	50-54	55-59	60-64
■ Baseline	\$49,182	\$44,052	\$43,004	\$42,681	\$44,186	\$44,055
■ With Social Security reduction	\$57,586	\$48,402	\$44,719	\$43,315	\$44,352	\$44,123

Average retirement deficits by age and future eligibility for DC plans

2019 Retirement Savings Shortfalls,* by Age Cohort and Years of Future Eligibility in Defined Contribution Plans



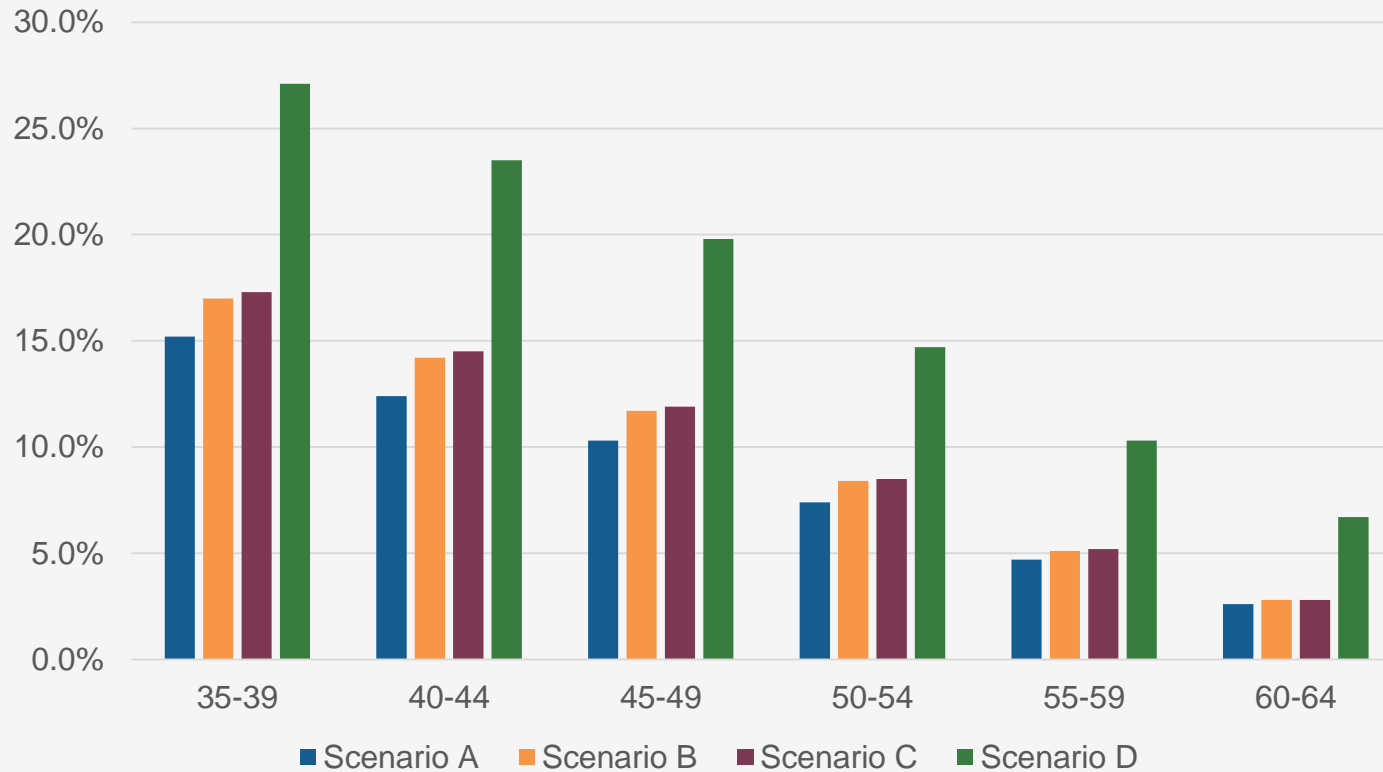
Source: EBRI Retirement Security Projection Model® version 3459.

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

PLAN/COVERAGE ENHANCEMENTS

Impact of four plan/coverage enhancement scenarios on retirement deficits

Reduction in Retirement Savings Shortfalls by Age

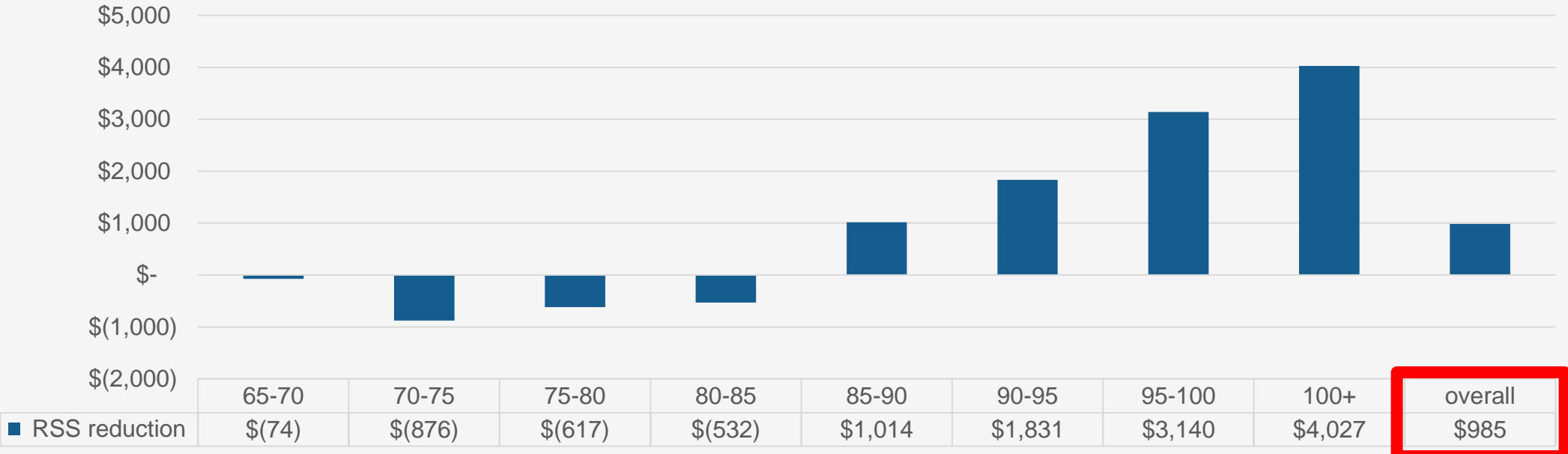


- Description of Scenarios:
- A. Plan required for all employers except the smallest. Auto IRA for new sponsors. 6% default with escalation to 10%. 30% optout for new eligibles.
 - B. Same as A with escalation to 15%.
 - C. Same as B but includes non-excludable employees
 - D. Same as C but includes full auto-portability

GUARANTEED INCOME FOR LIFE

Impact of guaranteed income for life on retirement deficits FOR THOSE WHO UTILIZE THE PROVISION

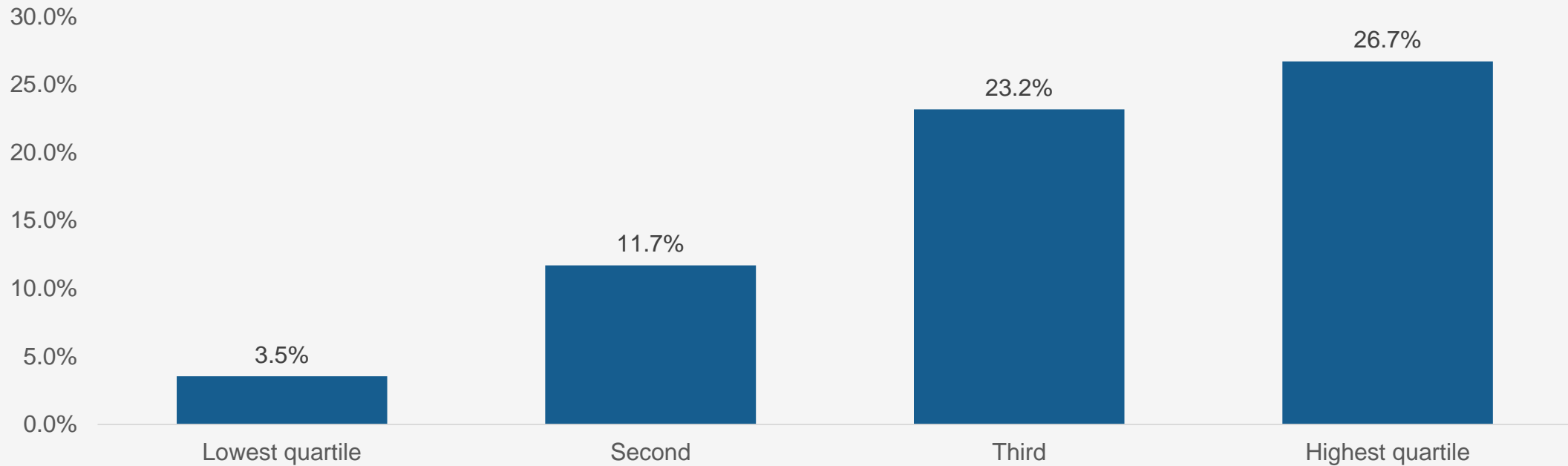
Average retirement deficit reductions by age at death from assuming 50% of 401(k) balances used to purchase SPIA at age 65 at annuity purchase price based on historical average for discount rates; excludes balances less than \$5,000



OPEN MEPS

Open MEPs are simulated to result in a significant reduction in retirement deficits for those who would have spent a considerable portion of their work career without eligibility for an employer sponsored retirement plan

Percentage reduction in retirement deficits for those currently 35-39 as a result of benefitting from an Open MEP for all years that they are not eligible for another type of employer-sponsored retirement plan

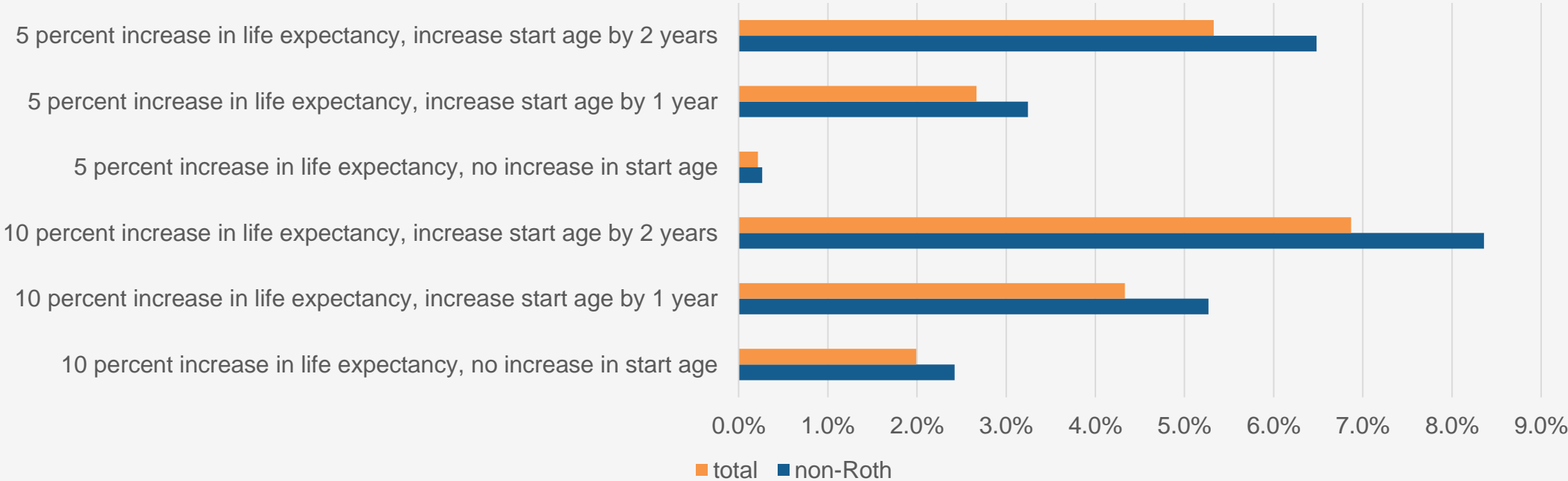


Distribution of years in the workforce without eligibility for an employer sponsored retirement plan (baseline)

IMPACT OF REQUIRED MINIMUM DISTRIBUTION MODIFICATIONS

Impact of Required Minimum Distribution modifications

Decrease in 2016 IRA distributions for those ages 71 to 100 from increasing the RMD life expectancy and/or the start date: assumes reaction only from those currently taking RMD



KEY TAKE-AWAYS

Key take-aways

- Aggregate retirement deficit for all households ages 35-64 = \$3.8 trillion (2019 dollars)
 - Averages relatively constant across age cohorts unless Social Security benefits are reduced
 - Future years of eligibility for defined contribution plans can decrease averages as much as 5.5 times for youngest cohort
- Plan enhancements
 - Expanding coverage to all but the smallest employers will reduce average deficits by 15% for the youngest cohort
 - Increasing escalation from 10% to 15% and expanding to all non-excludable employees will reduce deficits an additional 1-2% for the youngest cohort
 - Adding full auto-portability will reduce deficits by an additional 10% for the youngest cohort
- Guaranteed income for life (excluding balances less than \$5,000)
 - Overall decrease in retirement deficits of \$985 per individual utilizing the option
- Open MEPs
 - Decrease retirement deficits by 27% for the youngest cohort who would have spent a considerable portion of their work career without eligibility for an employer sponsored plan (top quartile)
- RMD modifications
 - A 10 percent increase in life expectancy and deferring the start age by 2 years would have decreased 2016 IRA distributions for those over age 70 by 8.4%

APPENDIX

ADDITIONAL INFORMATION FROM THE SIMULATION MODEL

When is a household considered to run short of money in EBRI's simulation model?

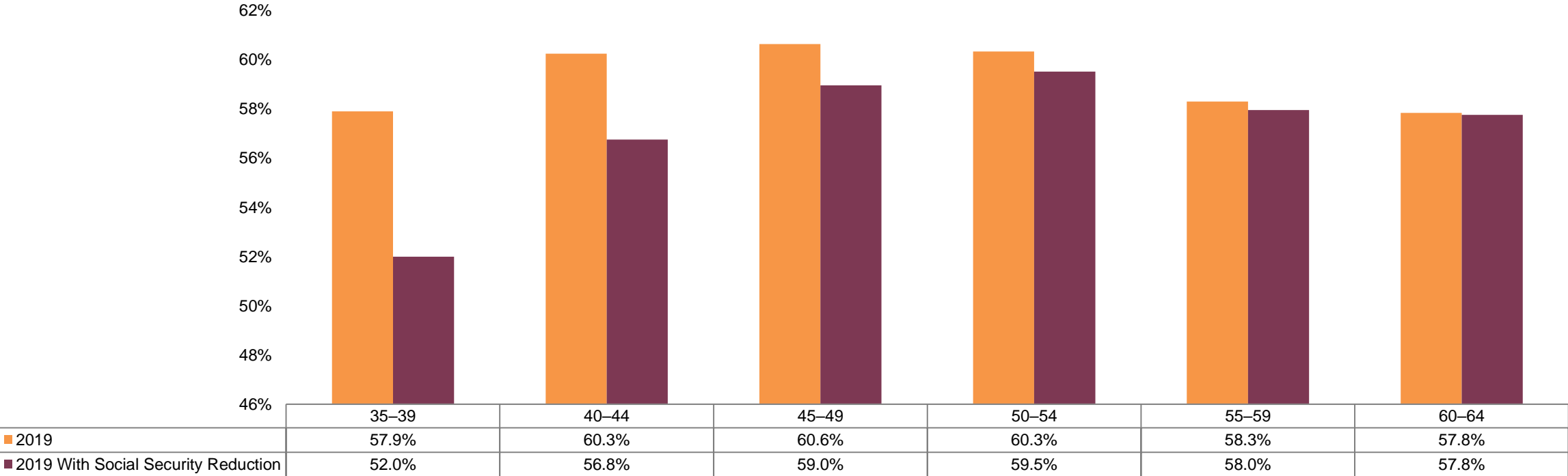
- If aggregate resources in retirement are not sufficient to meet average retirement expenditures
 - This version of the model is constructed to simulate retirement income adequacy
 - Alternative versions of the model allow similar analysis for replacement rates, standard-of-living calculations, and other ad hoc thresholds.
- The baseline version of the model used for this analysis assumes all workers:
 - retire at age 65
 - that they immediately begin drawing benefits from Social Security and defined benefit plans (if any)
 - to the extent that the sum of their expenses and uninsured medical expenses exceed the projected after-tax annual income from those sources
 - They immediately begin to withdraw money from their individual accounts (defined contribution and cash balance plans, as well as IRAs).

When is a household considered to run short of money (continued)?

- If there is sufficient money to pay expenses without tapping into the tax-qualified individual accounts
 - those balances are assumed to be invested in a non-tax-advantaged account where the investment income is taxed as ordinary income.
- Individual accounts are tracked until the point at which they are depleted.
 - At that point, any net housing equity is assumed to be added to retirement savings in the form of a lump-sum distribution (not a reverse annuity mortgage (RAM)).
- If all the retirement savings are exhausted and if the Social Security and defined benefit payments are not sufficient to pay expenses, the household is designated as having run short of money at that point.

Probability of a successful retirement by age

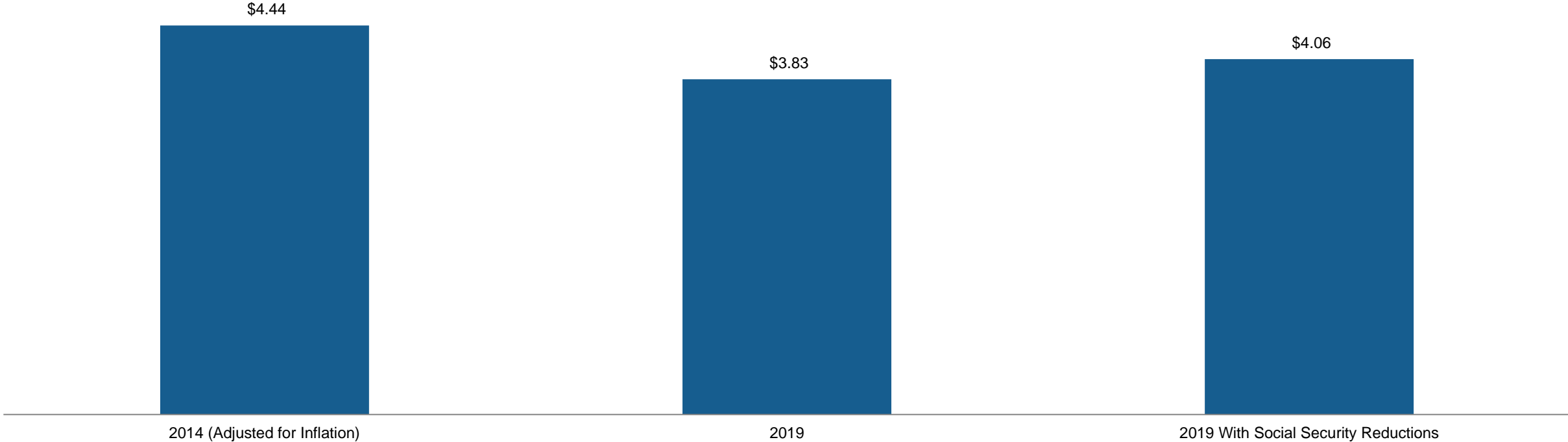
Average Retirement Readiness Rating, by Age Cohort: 2019 Baseline, and 2019 Adjusted for Social Security Reduction



Sources: EBRI Retirement Security Projection Model® versions 1995, 3458, and 3465.

Aggregate retirement deficits

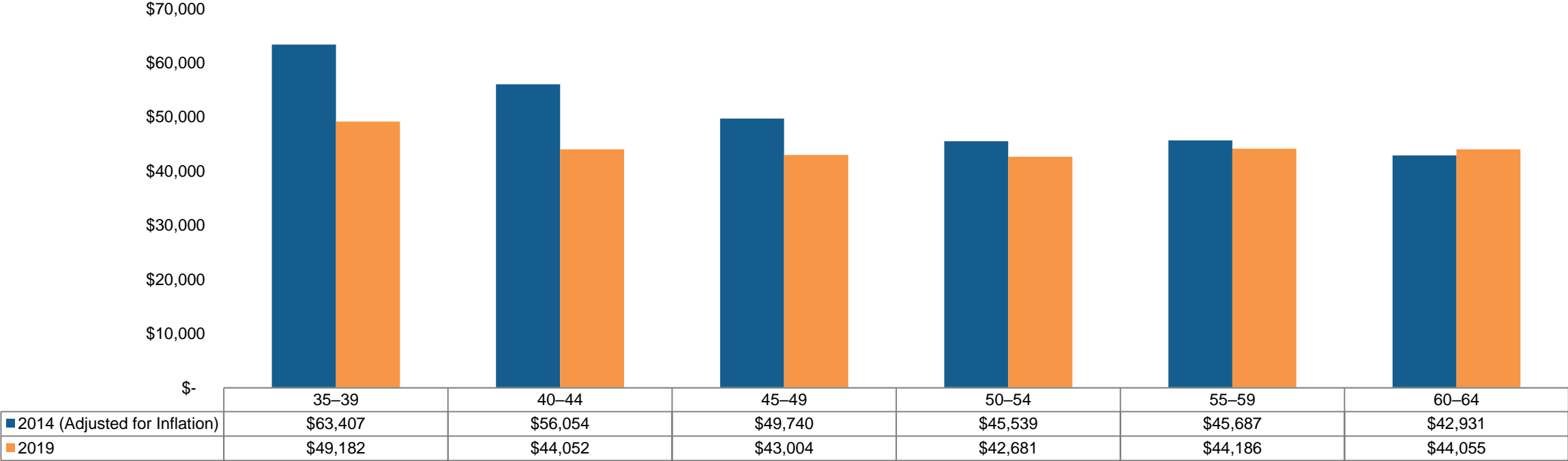
Retirement Savings Shortfall* (Trillions of 2019 Dollars) for Households Headed by Individuals Ages 35–64: 2019 vs. 2014 (Adjusted for Inflation)



Sources: EBRI Retirement Security Projection Model® versions 2163, 3459 and 3461.
* The Retirement Savings Shortfalls (RSS) are determined as a present value of retirement deficits at age 65.

Average retirement deficits by age

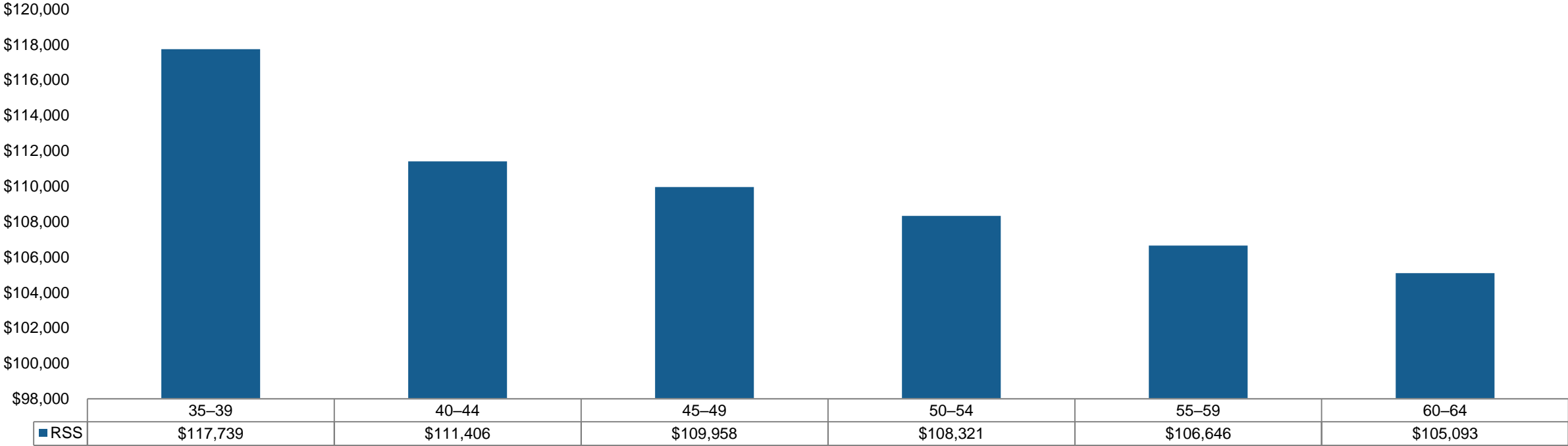
Average Retirement Savings Shortfalls,* by Age Cohort: 2019 vs. 2014 (Adjusted for Inflation)



Sources: EBRI Retirement Security Projection Model® versions 2163 and 3459.
 * The Retirement Savings Shortfalls (RSS) are determined as a present value of retirement deficits at age 65.

Average retirement deficits for those with a deficit

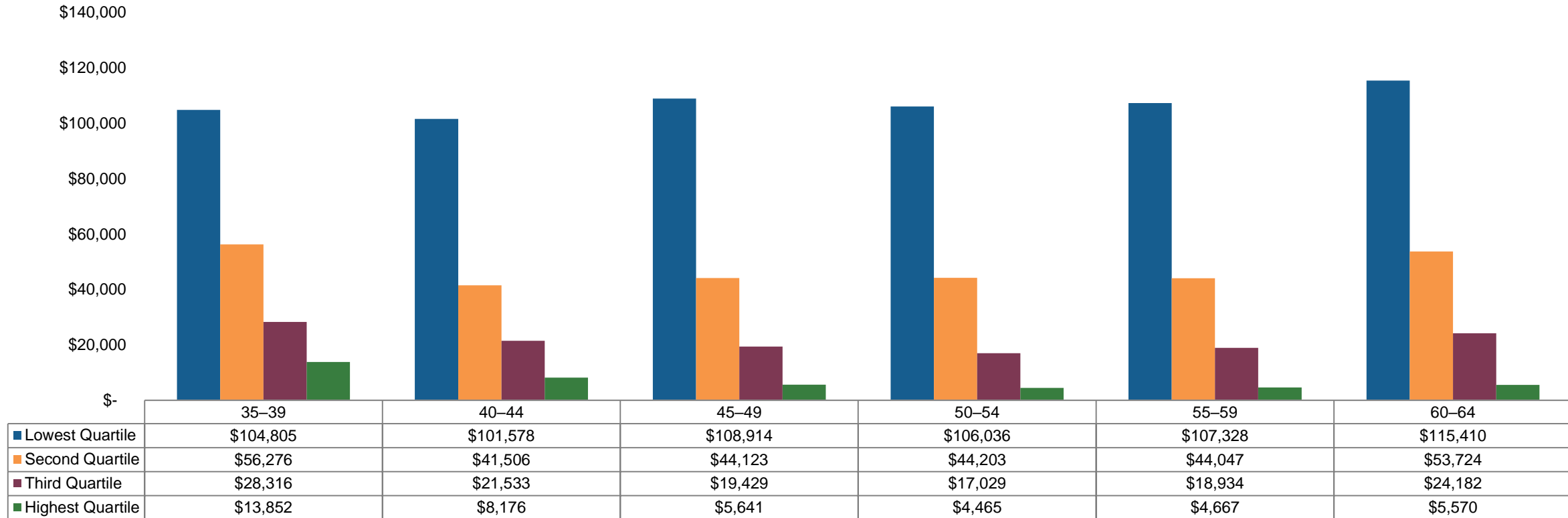
Average 2019 Retirement Savings Shortfalls* for Those Households With a Deficit, by Age Cohort



Source: EBRI Retirement Security Projection Model® version 3459.
 * The Retirement Savings Shortfalls (RSS) are determined as a present value of retirement deficits at age 65.

Deficits by age and pre-retirement income

2019 Retirement Savings Shortfalls,* by Age Cohort and Preretirement Income Quartile

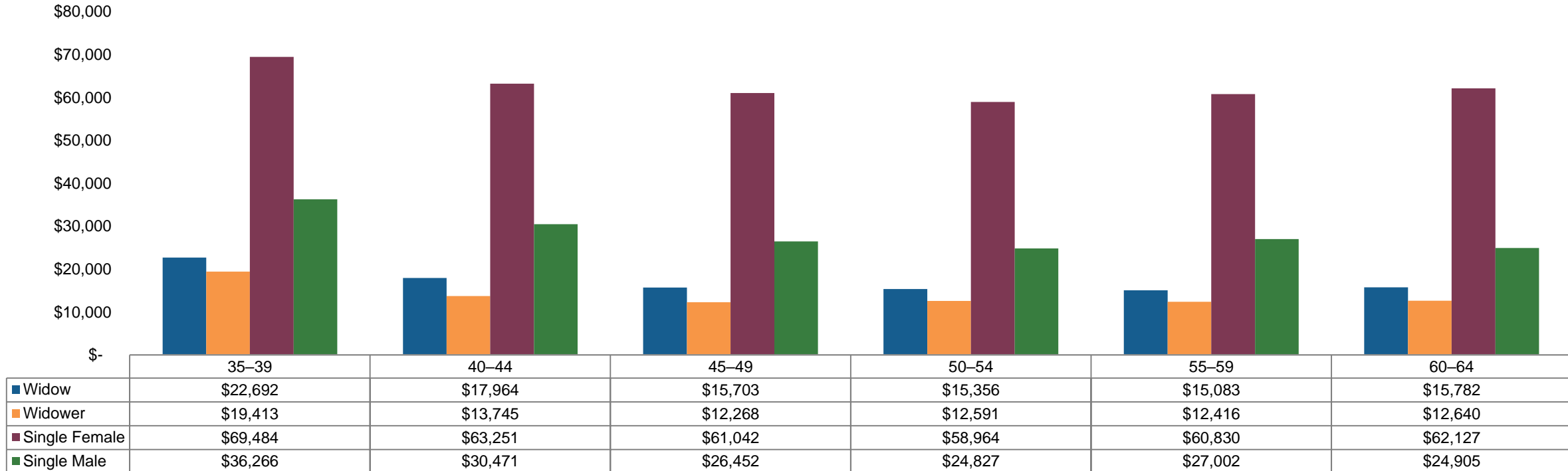


Source: EBRI Retirement Security Projection Model® version 3459.

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

Deficits by age and marital status/gender

2019 Retirement Savings Shortfalls,* by Age Cohort and Marital Status/Gender

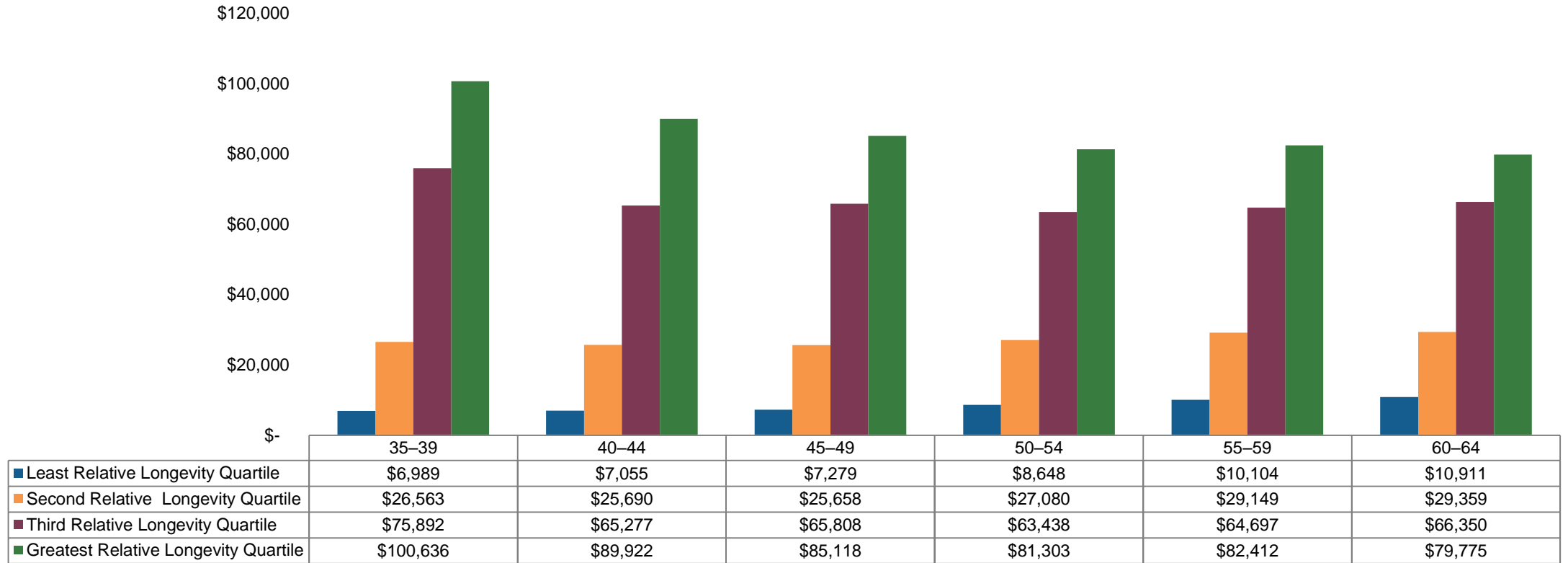


Source: EBRI Retirement Security Projection Model® version 3459.

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

Retirement deficits by age and longevity

2019 Retirement Savings Shortfalls,* by Age Cohort and Relative Longevity Quartile



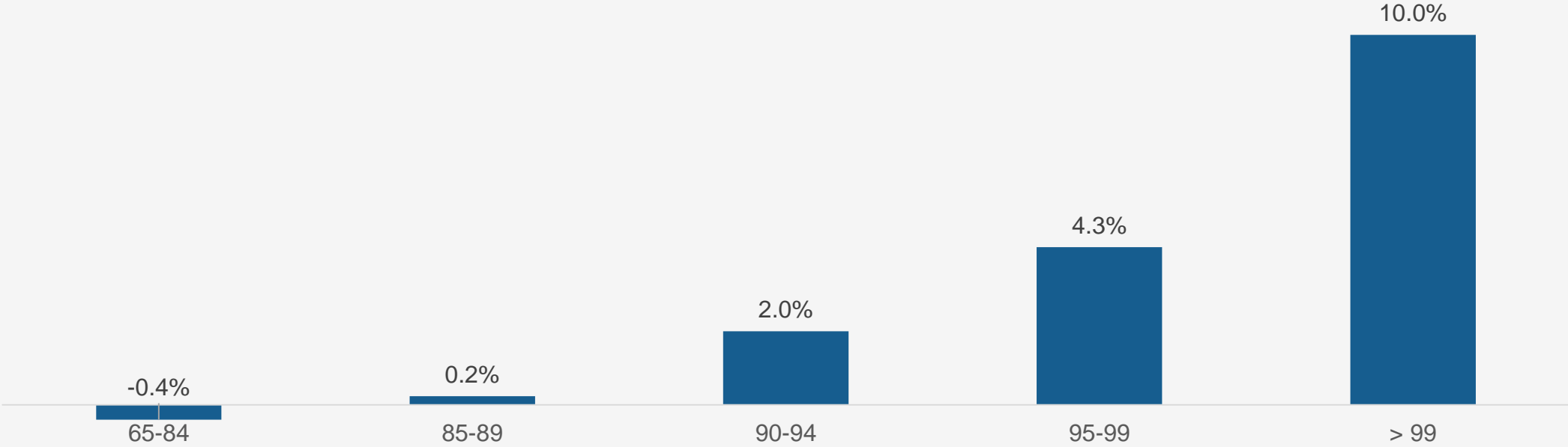
Source: EBRI Retirement Security Projection Model® version 3459.

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QLACS EMBEDDED IN A TDF

Percentage increase in EBRI Retirement Readiness Ratings from QLAC annuities embedded in a TDF by age at death (second death for couples)

For households currently ages 35-39 who have a 401(k) balance at retirement age (65). No pre-commencement death benefits.



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