# Assessing Future Retirement Security with the Results Of the EBRI/ERF Retirement Security Projection Model

*The 54th EBRI/ERF Policy Forum*

## Introduction

**Dallas Salisbury**
**President and CEO**
**Employee Benefit Research Institute**
**www.EBRI.org**

EBRI
EMPLOYEE
BENEFIT
RESEARCH
INSTITUTE®

# The Forum

- An objective of active interaction
- Comments and reaction, not just questions
- A formal break for lunch
- A summary publication following the forum
- Special thanks to the Milbank Memorial Fund for support and partnership in development of the model, and in carrying out the State projects
- Special thanks to Mark Gibson of Oregon, Harriette Chandler of Massachusetts, Sandy Praeger of Kansas, the many who assisted them and us in those states, and to the Reforming the States Group for reviews and suggestions

EBRI
EMPLOYEE
BENEFIT
RESEARCH
INSTITUTE®

# Reasons for development of the model

- Need for state-specific assessments of retirement income adequacy
- Other models have projected retirement income and wealth
  - Many have simply compared to a threshold replacement ratio
  - Some have used deterministic retiree expenditures as a comparison
  - Few have taken into account the stochastic nature of health expenses
- In addition to these improvements we wanted to design a model that would allow retirees to have better than a 50/50 chance of having "sufficient" retirement income
  - Today's results illustrates the amounts needed for a 75 and 90 pct chance of having enough retirement income for the entire life span
  - Not limited to only *average* life expectancy or *average* life expectancy plus some arbitrary number of years

# Started with Oregon

- Projected retirement income/wealth at age 65
- Assumed all individual accounts were annuitized at retirement
- Compared with a series of three ad-hoc expenditures
  - Basic expenses plus increasingly severe estimates for health care needs
- Determined the percentage future Oregon residents that would fall short of the various thresholds by:
  - Age
  - Gender
  - Family status at retirement

EBRI
EMPLOYEE
BENEFIT
RESEARCH
INSTITUTE®

# Kansas and Massachusetts: a better approach to modeling retiree expenditures

- performed annual simulations on the Kansas and Massachusetts households to determine if each retiree would:
  - require home health care,
  - enter a nursing home,
  - die, or
  - continue to survive without incurring any of these health costs.

- Year-by-year comparison of simulated retirement expenditures vs. retirement income (for defined benefit plans and Social Security) and account balances that may be spent as desired (defined contribution plans and IRAs)

EBRI
EMPLOYEE
BENEFIT
RESEARCH
INSTITUTE®

# Today's presentation: National model

- In addition to expanding the state-specific methodology to the nation, the current version of the model
  - Computes how much additional savings would be required (as a percentage of compensation) to provide a specified chance of having sufficient basic retirement income
  - Computes the percentage of each cohort that would likely have sufficient basic retirement income if they saved an additional 5 pct of compensation each year until retirement
  - Provides a proxy for what would be achieved by a mandatory 5% savings requirement on top of current retirement programs

EBRI
EMPLOYEE
BENEFIT
RESEARCH
INSTITUTE®

# The model results will provide:

- Prospects for future financial well being of the population by cohort and income
- A picture of how much individuals would have to save beyond structured retirement plans (meaning some may be doing it) – and tied to our RCS, etc. the likelihood that individuals can fill the gap on their own with savings
- An indication of how much a mandatory savings system would have to do to get people to a level of assets to cover basic expenses
- Analysis of what states and the nation might face as shortfalls to make up if SSA and Medicare and Medicaid do not change – and if SSA is reduced
- Scenarios of what enterprises trying to sell to retirees might face as the financial status of retirees as a market for discretionary goods
- Projections of what enterprises wanting to hire older workers and retirees may face in supply/demand as relative income pushes individuals to seek work

# The model will also provide the basis for future work on the following scenarios:

- What if db plans "go away"
  - Either through frozen benefit accruals or outright termination of adequately funded plans
- What if annuities "go away"
  - What if all retirees one day choose lump sum distributions from all plans due to an erosion of confidence
- What if annuities were mandatory and all benefits were distributed in a manner that had no investment or longevity risk for the individuals?
- What if Medicare was cut dramatically?
- What if savings were mandated at various levels ?

EBRI
EMPLOYEE
BENEFIT
RESEARCH
INSTITUTE®

# Challenges of a poor retiree population

- As the over 65 climbs from 13% to 22% of the population
  - Challenge for an economy that counts on consumer spending for 70% to 80% of growth
  - Challenge for US firms that sell to the retired population
  - Challenge at the ballot box - given relative voter turn out of those over 65
    - particularly in states with an initiative and referendum process
  - Challenge for federal, state and local tax revenue
  - Challenge for entitlement programs that are needs based
  - Challenge for children, and grandchildren, and great grandchildren, and great great……..

EBRI
EMPLOYEE
BENEFIT
RESEARCH
INSTITUTE®

# ChoosetoSave®*or* Work Forever ?

www.choosetosave.org

For society: Be prepared for the fact that many cannot afford to save!

EBRI
EMPLOYEE
BENEFIT
RESEARCH
INSTITUTE®