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Employee Benefit
Research Institute

Evidence on Defined Contribution Health and Retirement: The Road Ahead

EBRI-ERF Policy Forum #76
Thursday, May 14, 2015

Wireless Password: innovation

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Panel 1: Private Health Insurance Exchanges and “Defined Contributions”

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Private Health Insurance Exchanges and “Defined Contributions”

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Headline from Bloomberg News: “Workers to Shop for Health Plans as Employers Quit Benefits”

“A growing number of Americans are no longer getting health insurance directly from work as companies quit administering benefits...”

Source: <http://www.Bloomberg.Com/news/articles/2015-04-07/mounting-health-costs-lead-to-growth-spurt-for-private-exchanges>

Headline from Forbes: “Private Insurance Exchanges Thrive While Obamacare's Falter”

“Private exchange enrollment has reached 6 million customers...”

Source:

<http://www.forbes.com/sites/sallypipes/2015/04/20/private-insurance-exchanges-thrive-while-obamacares-falter/>

Private Health Insurance Exchanges

- A private business – typically operated by insurance brokers, benefit consultants, or insurers – that sells insurance products to consumers through web-based portals
- Private exchanges offer:
 - The use of defined contribution health plans
 - Expanded “employee choice”
 - Decision support (e.g., “recommendation technology”)
 - End-to-end transactional services
- Single-carrier or multiple-carrier
- Single-employer or multi-employer
- Can also provide dental, vision, and other voluntary benefits

Goals

- Create a competitive marketplace at the consumer level
- Facilitate movement to fixed-contributions or defined-contributions
- Expand choice
- Provide an alternative to state-based exchanges
- Offers a solution for retiree health
- Reduces administrative costs and burden

Is It Déjà Vu All Over Again? Technology “Caught-Up” to the Concept



The NEW ENGLAND
JOURNAL of MEDICINE

SPECIAL ARTICLE

Consumer-Choice Health Plan — Inflation and Inequity in Health Care Today: Alternatives for Cost Control and an Analysis of Proposals for National Health Insurance

Alain C. Enthoven, Ph.D.

March 23, 1978
N Engl J Med 1978; 298:650-658

125
CAFETERIA PLAN

THE ERISA INDUSTRY COMMITTEE

Embargo To 06/13/07



Advocating the Employee Benefit and Compensation Interests of America's Major Employers

The Largest Employer with a Private Exchange

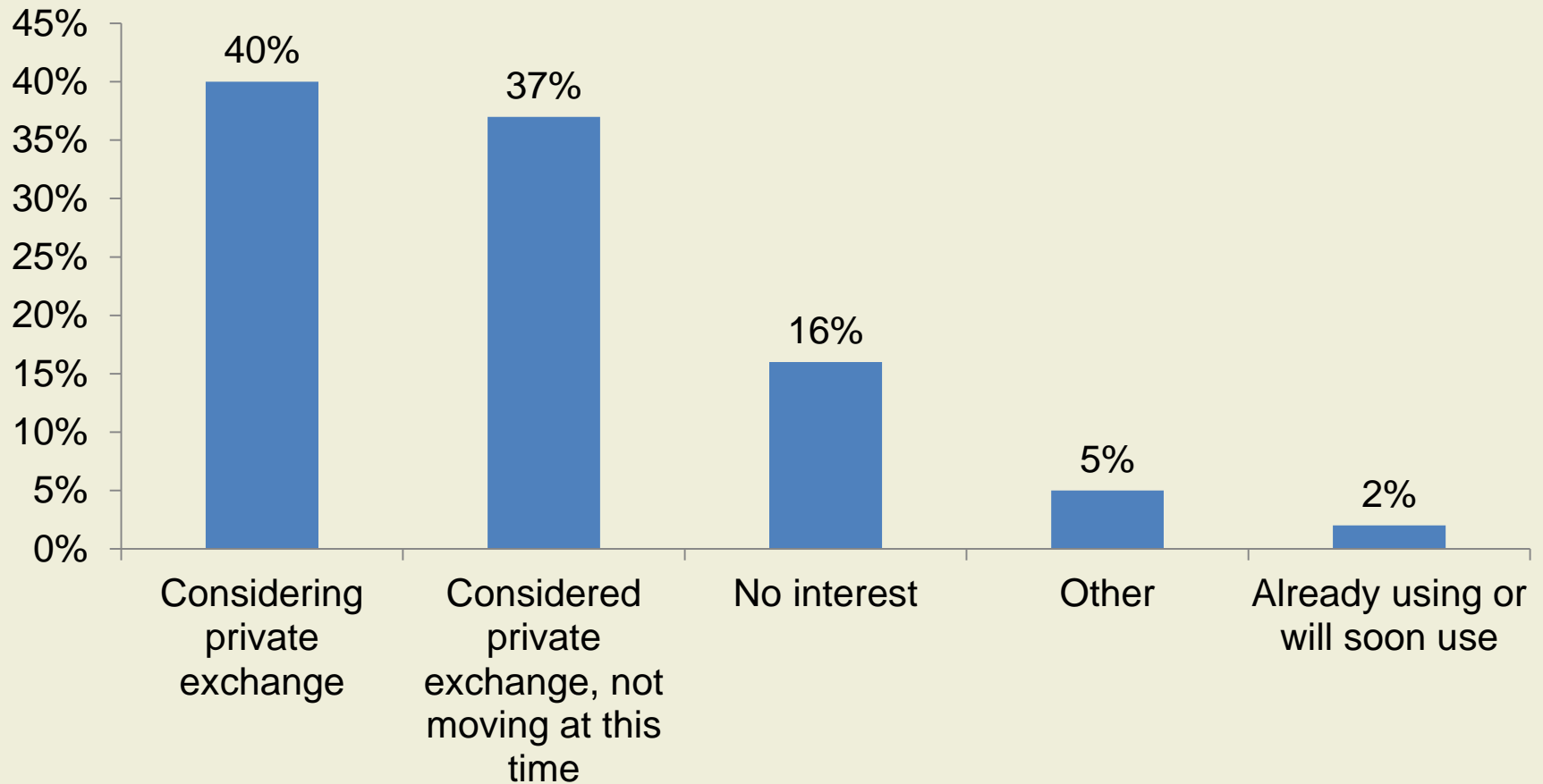


- Federal Employee Health Benefits Program (FEHBP)
- About 3 million workers

New Model Uncertainties

- Are expenses more predictable?
- Will it increase competition?
- Will increase choice be positive for consumer?
- Will employees shop intelligently and choose highest value plan?
- What happens to wellness programs?
- Will it reduce administrative costs?
- Do lessons learned from retirement benefits apply?
- How does moving to fully-insured model save money?
- If plans are standardized, how do they compete?
- Does risk-adjustment mitigate need to compete?
- Why would insurers invest in people if they can easily move to another plan during open enrollment?
- If employers aren't pooled, what does it mean to be in an exchange?
- If employers self-insure, what does it mean to be in an exchange?

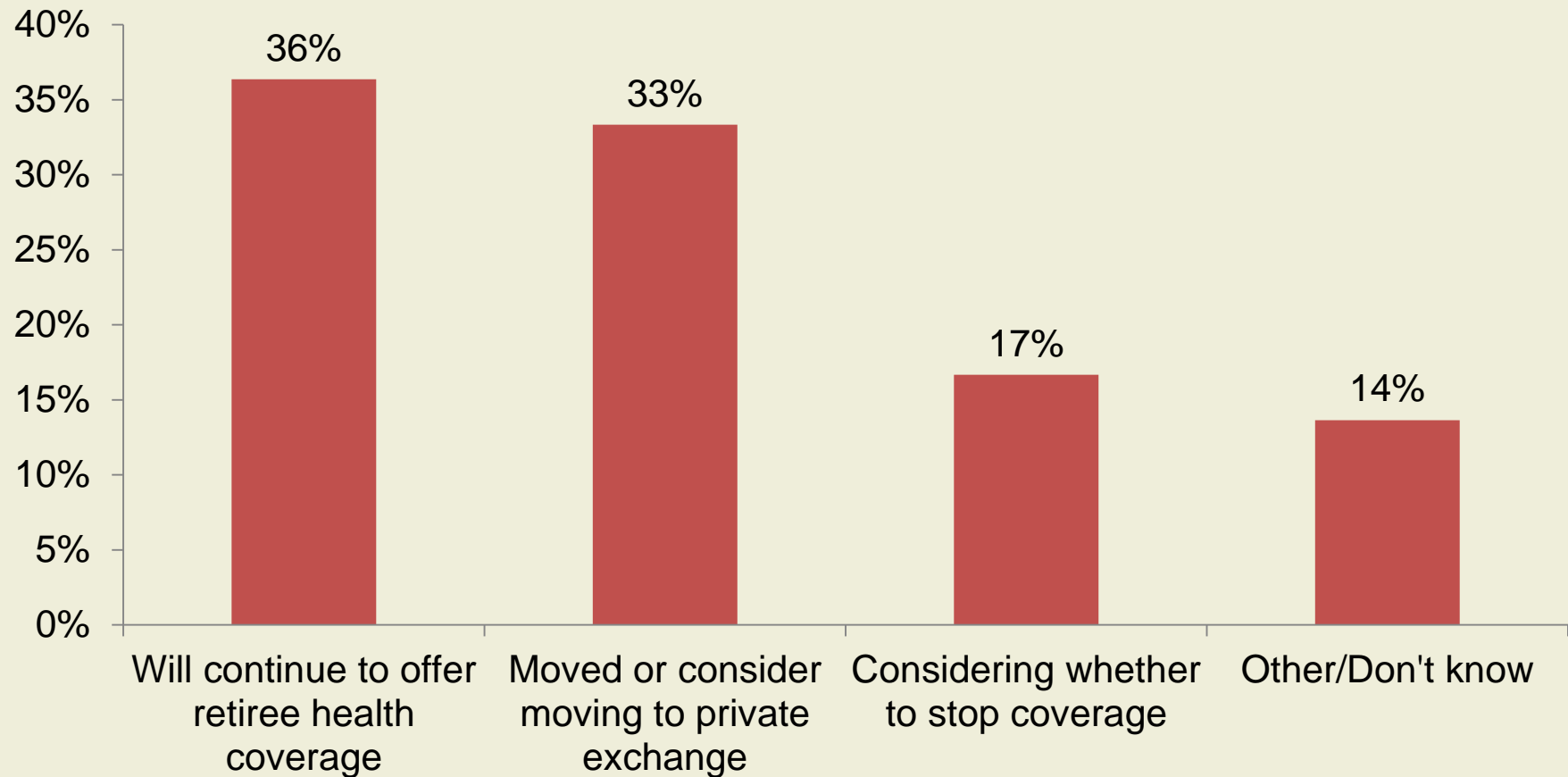
Interest in Private Exchanges is High; Adoption is Low



Trends Start with Small Numbers: Private Exchanges for Large Employer Active Market

	Aon Hewitt	Buck	Mercer	Towers Watson
2013	Darden & Sears			
2014 (1.3 mil.)	600,000 lives	400,000 lives	165,000 lives	127,000 lives
2015 (2.9 mil.)	850,000 lives 30 employers	610,000 lives 16 employers	975,000 lives 170 employers	450,000 lives
Select Employers	Aon Apollo Education Group AXA Aramark Darden Hallmark Hilton Worldwide Sears Tesla Motors Walgreens	AMN Healthcare Arby's Restaurants Bob Evans Church & Dwight Domino's Pizza Ovation Brands Xerox Corp.	ABHOW Addison Group Avago Technologies Cosentry DineEquity Kinder Morgan Kraus Flooring Marsh & McLennan PAS Technologies Petco Sanborn Map Co. Surgical Specialties Corp. Vistrionix	Convergys GameStop Sheraton Hotels Time Inc.

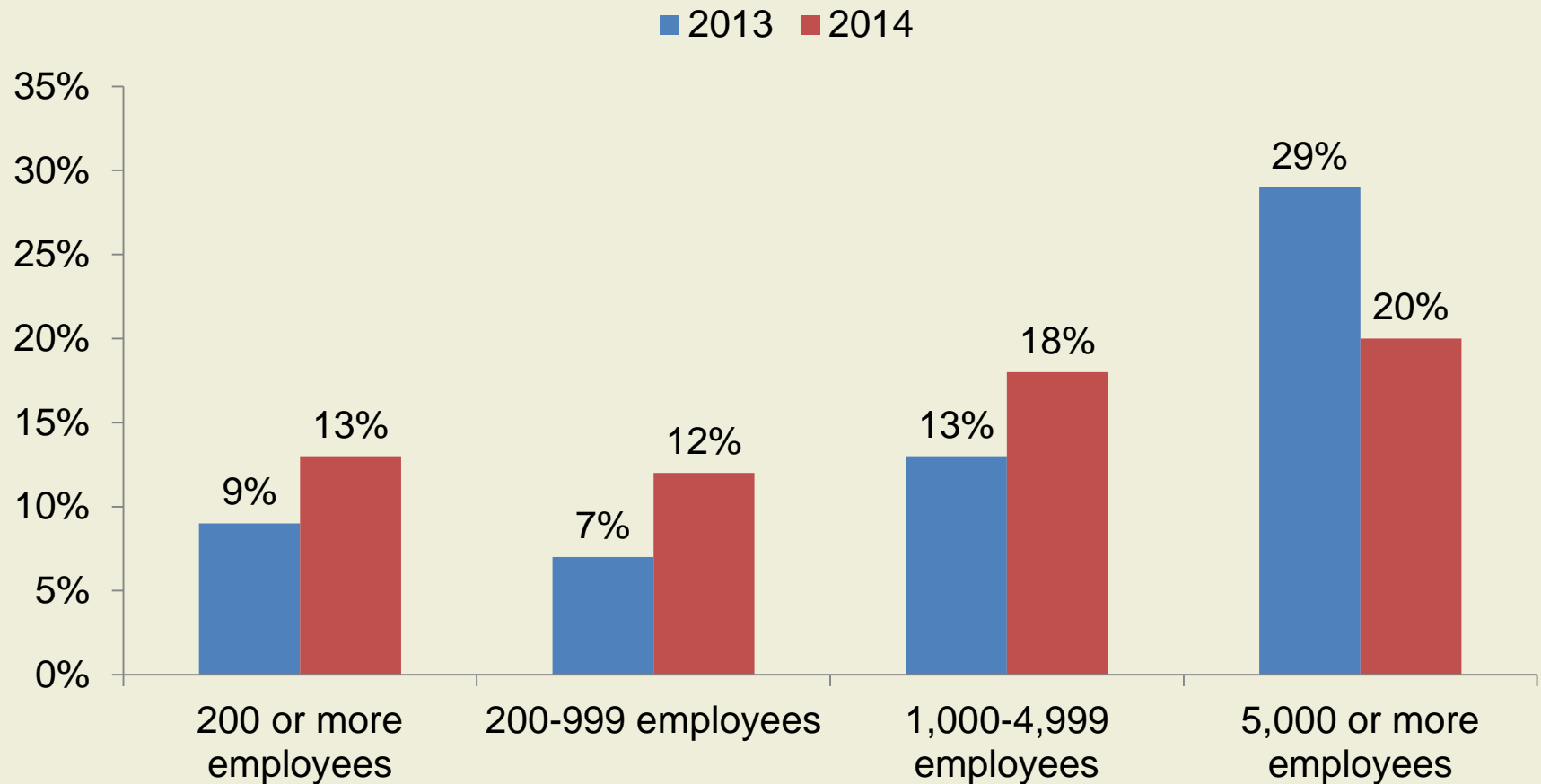
Move to Private Exchanges for Early Retirees Already Happening



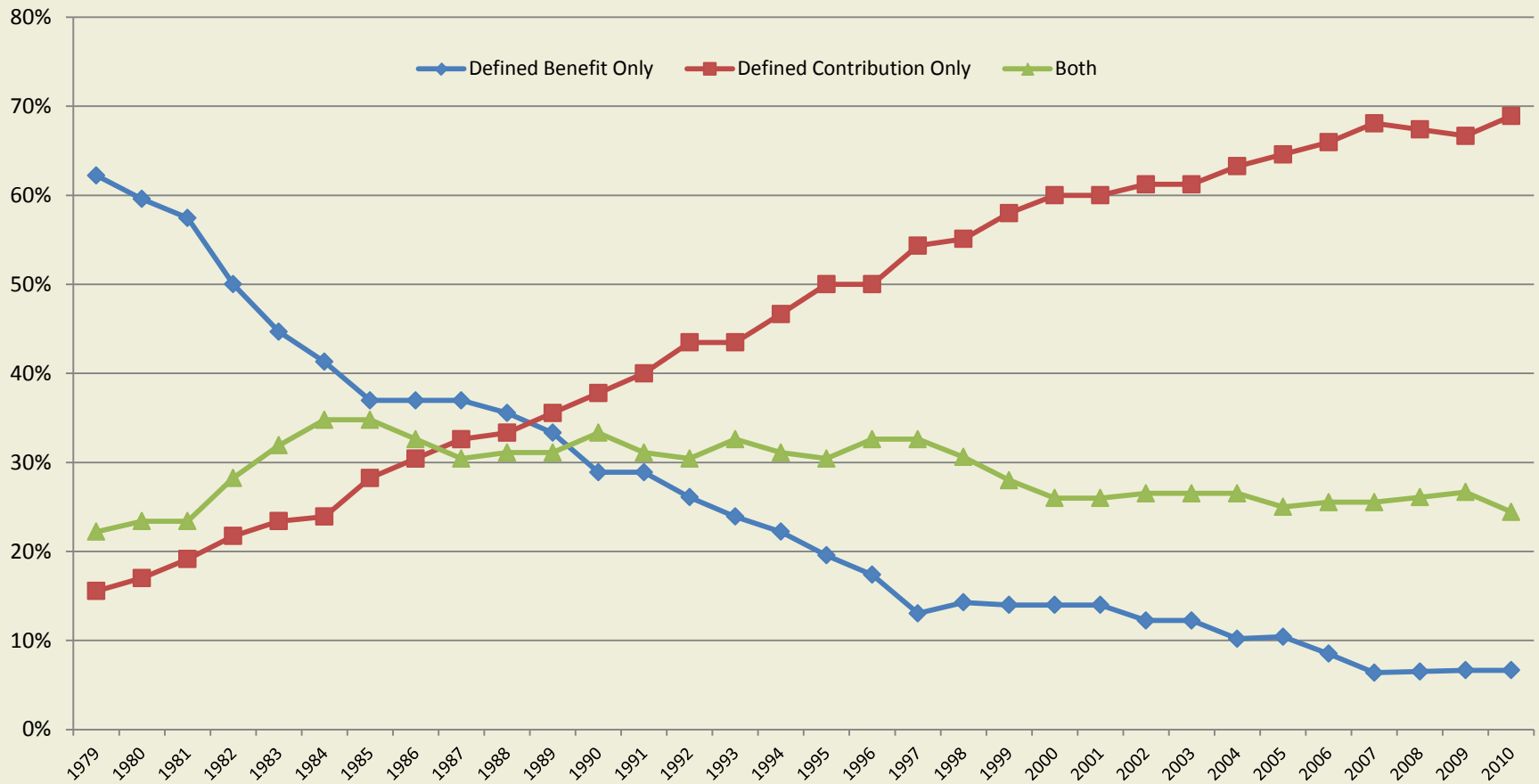
Predicted Growth in Private Exchanges

Consultant	Estimated Enrollment	By Year
EBRI	5-6 million (5%)	2015
Accenture	40 million	2018
Oliver Wyman	39.1 million	2018
Goldman Sachs	35 million	2019
EBRI	13-15 million (10%)	2020
Consumerdriven, LLC HSA Consulting Services, LLC	75 million	2020

Percentage of Firms Considering Offering Benefits Through a Private Exchange in the Future, 2013-2014

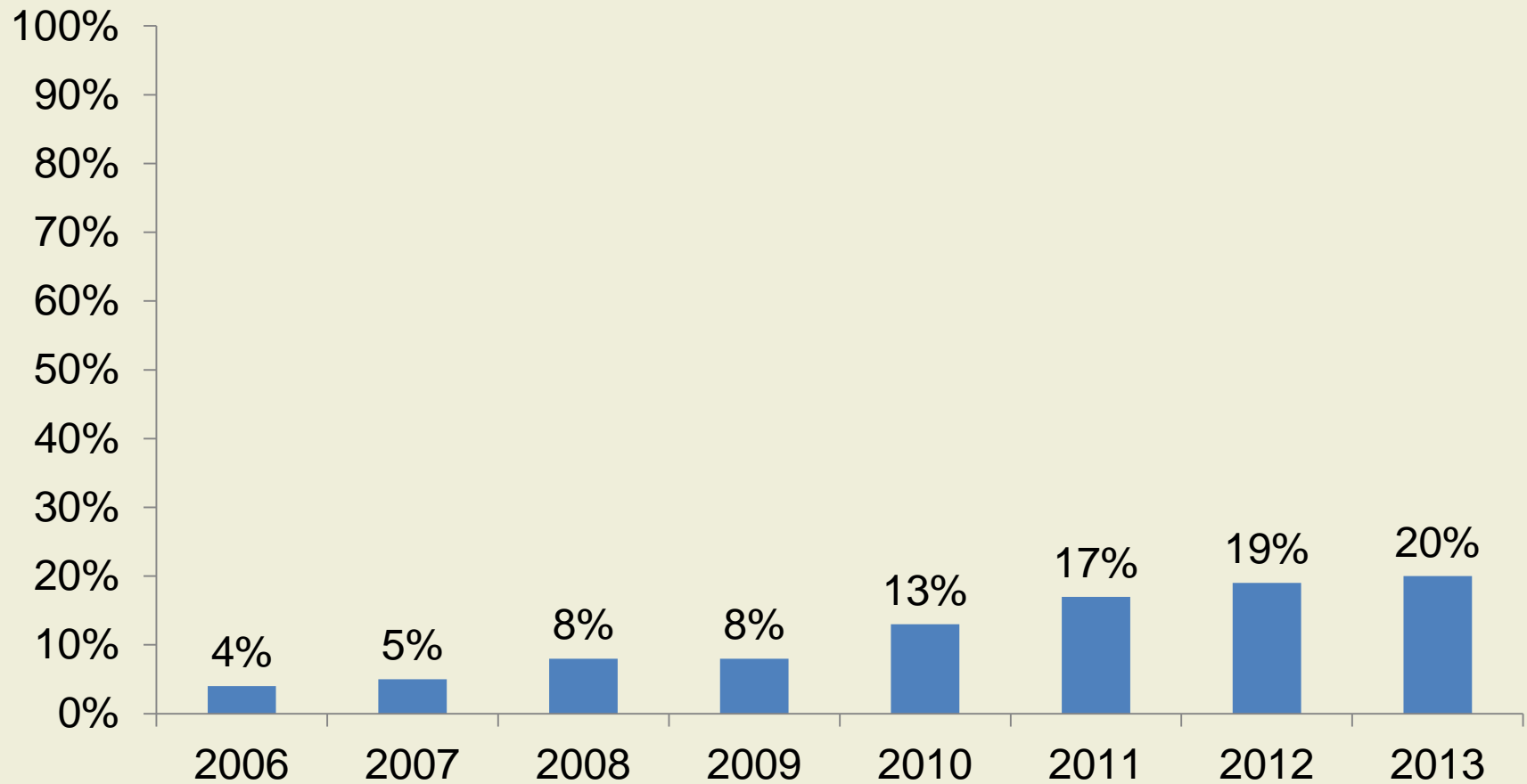


Distribution of Private Sector Participants in an Employment-Based Retirement Plan, by Plan Type, 1979-2010



Source: U.S. Department of Labor Form 5500 Summaries 1979-1998, Pension Benefit Guaranty Corporation, Current Population Survey 1999-2011, EBRI estimates 1999-2010.

Percentage of Covered Workers Enrolled in a CDHP, 2006-2013



Source: Kaiser Family Foundation.

EBRI : Just the Facts™



www.ebri.org

www.choosetosave.org

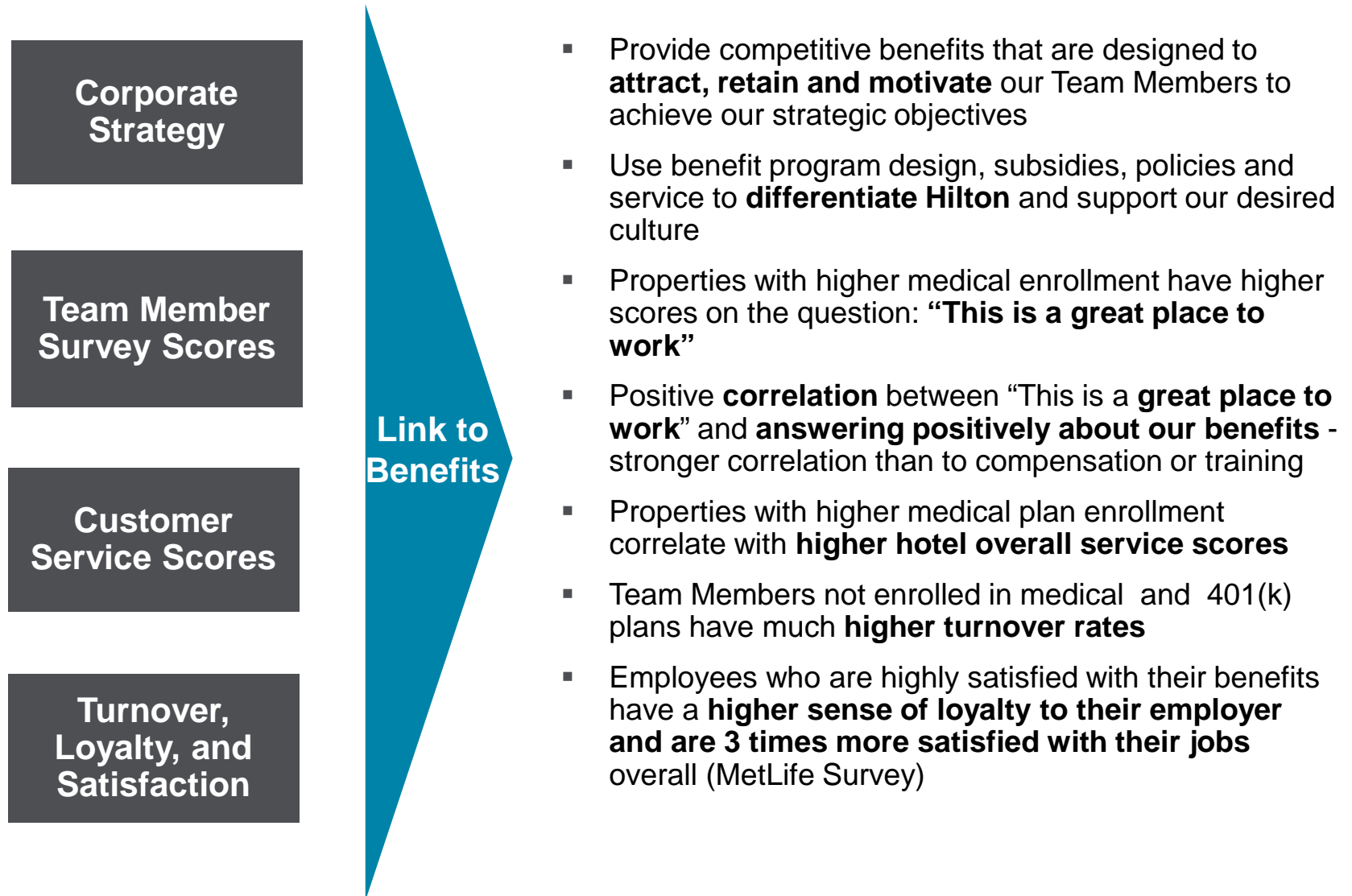
Case Study: Hilton Worldwide



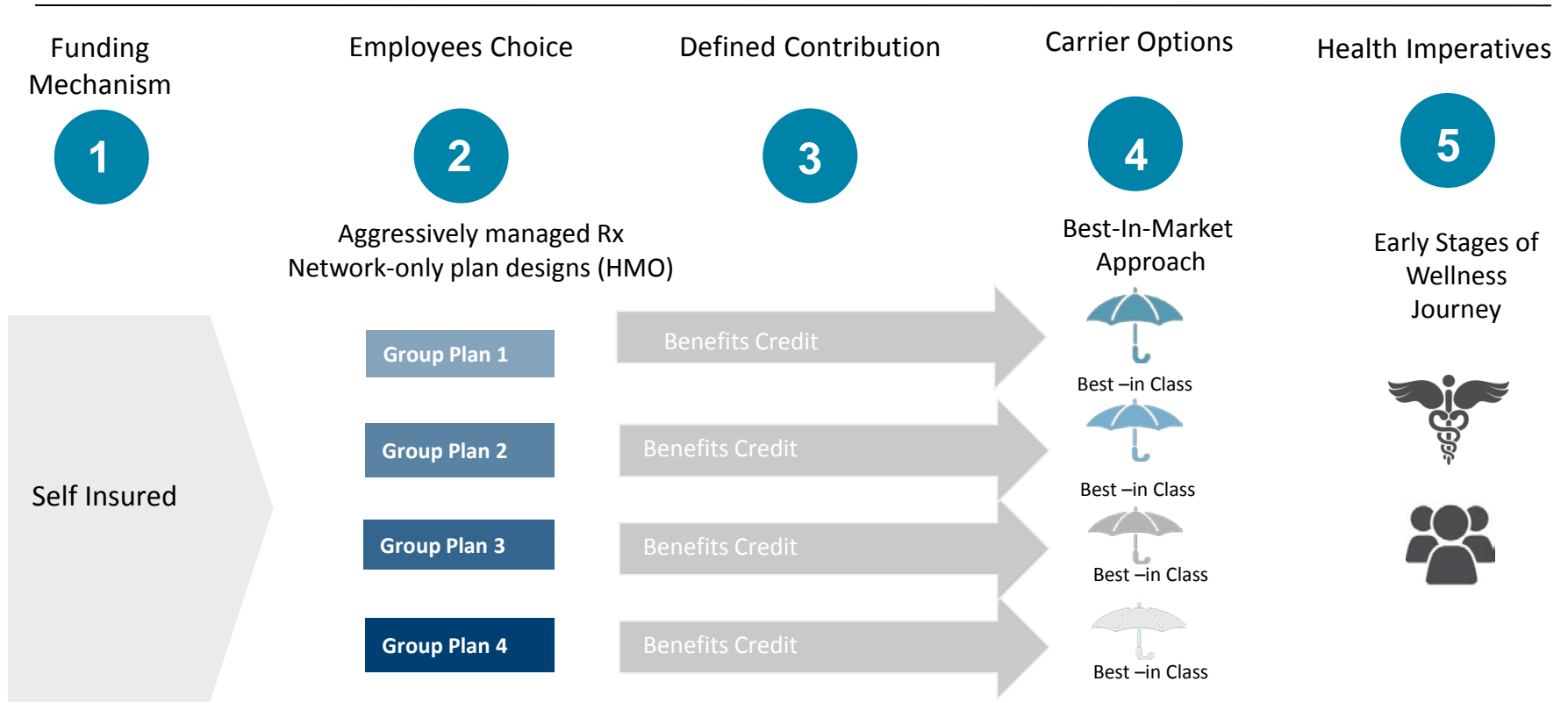
Hilton at a Glance

- Global in scope, with twelve distinct brands serving different needs of our guests
 - Hilton, Waldorf, Conrad, Curio, Doubletree, Embassy Suites, Canopy, Hilton Garden Inn, Homewood Suites, Hampton Inn, Home2 Suites, Hilton Grand Vacations
- We own properties, manage properties on behalf of Owners, and franchise properties
- Approximately 155,000 Team Members globally at the company's owned and managed hotels, HGV and corporate offices
- We have approximately 70,000 Team Members on our payroll in the U.S.
- In the U.S.
 - We operate hotels in 44 states plus Puerto Rico and Guam
 - Approximately 400 locations
 - Employer sponsored plans and union sponsored plans
 - No retiree medical benefits

Hilton's Beliefs on Benefits



Multipronged Approach to Managing Healthcare Costs



Hilton's Broadened View and Fresh Perspective

Fueled by the changes and complications of the ACA, Hilton took three distinctive actions:

Studied the marketplace for insurance alternatives

- *Insurance, self insurance, public exchanges, private exchanges*

Discussed results of marketplace experiments

- *Accountable care organizations*
- *Narrow networks*
- *Direct contracting*
- *Wellness*
- *Population health*
- *Transparency tools for provider cost and quality of care*

Monitored cost increases and plan design changes in the market

- *The movement to high deductible plans*
- *The use/non-use of HSAs*

The ACA Provides An Opportunity For Fresh Thinking

The ACA essentially redefines how employers will structure their total rewards approach

- A new “floor” on what constitutes acceptable coverage (2010-2014)
- A common definition of who should be covered (2010-2016)
- A new “ceiling” on what constitutes acceptable coverage (2018)

Result: Healthcare benefits will be a less useful differentiator in total rewards between employers, and the effect will be compounded by health care inflation over time.

The creation of public exchanges redefine the marketplace. A new consumer experience is created. Insurers compete in a more transparent way.

The infrastructure created to support public exchanges and mindset created by public exchanges can be leveraged for a private exchange model.

Aon's Exchange Emerged as the Best Model Forward in This New Era

HealthChoice: A new dynamic of providing health care to Hilton Worldwide US Team Members



Real competition

- The largest, most respected coverage administrators in the country quoting competitive, binding rates
- Competition for individual employee enrollment creates accountability and incentive for innovation
- An economically stable option in an era of rising health costs

Real Consumerism

- HealthChoice gives Team Members freedom to choose medical coverage that best fits their needs
- High deductible plans encourage consumerism and accountability to make the best health decisions for Team Members and their families
- Large variance in cost when comparing lower value to higher value plans

Aon's Exchange Provides an Innovative Alternative at a Lower Cost

Known
service
provider

**Extension of existing
agreement**

Less
administration

**Costs are only for
insurance plans**

Maximum
cost
avoidance

Better overall pricing

- Lower costs for team members – can “draft down” in their plan choices
- Allows us to offer competitive employer/employee cost sharing

Advanced
movement to
exchanges

**System moving to
exchange model**

Choice of
insurers

**Better local provider
coverage**

Fully Insured vs. Self Insured

Myth

+7% to +12%

Fully Insured vs. Self Insured

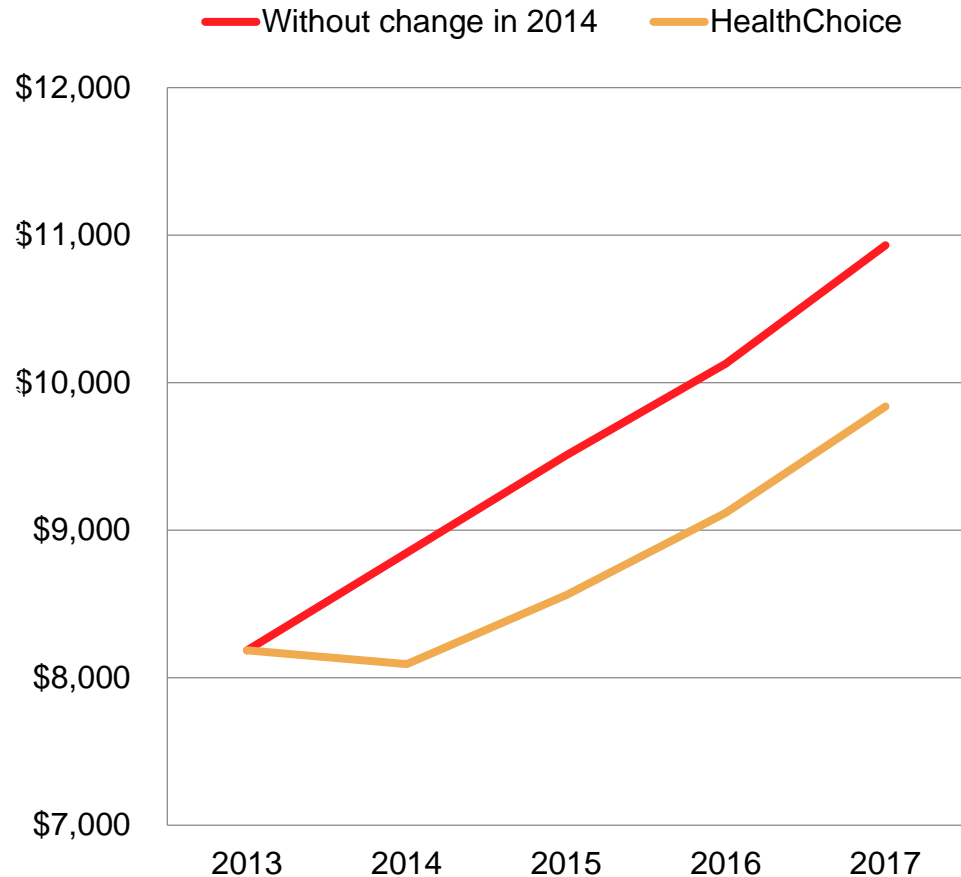
Fact

-1.3%

The Private Health Exchange Reduced Our Cost Structure

THE AON ACTIVE HEALTH EXCHANGE PROVIDED REAL SAVINGS

- The move to HealthChoice for 2014 reduced an increase of 8% per Team Member down to an overall decrease of 1% without reducing plan designs or company subsidy
- Renewal rates for the second year remained at market-competitive levels. We anticipate annual per capita increases to be consistent with market increases, leveraging our initial savings



Second Year Rate Increases

Up to 25%

Myth

Second Year Rate Increases

5.3%

Fact

Employee Satisfaction



Hilton Employee Reaction

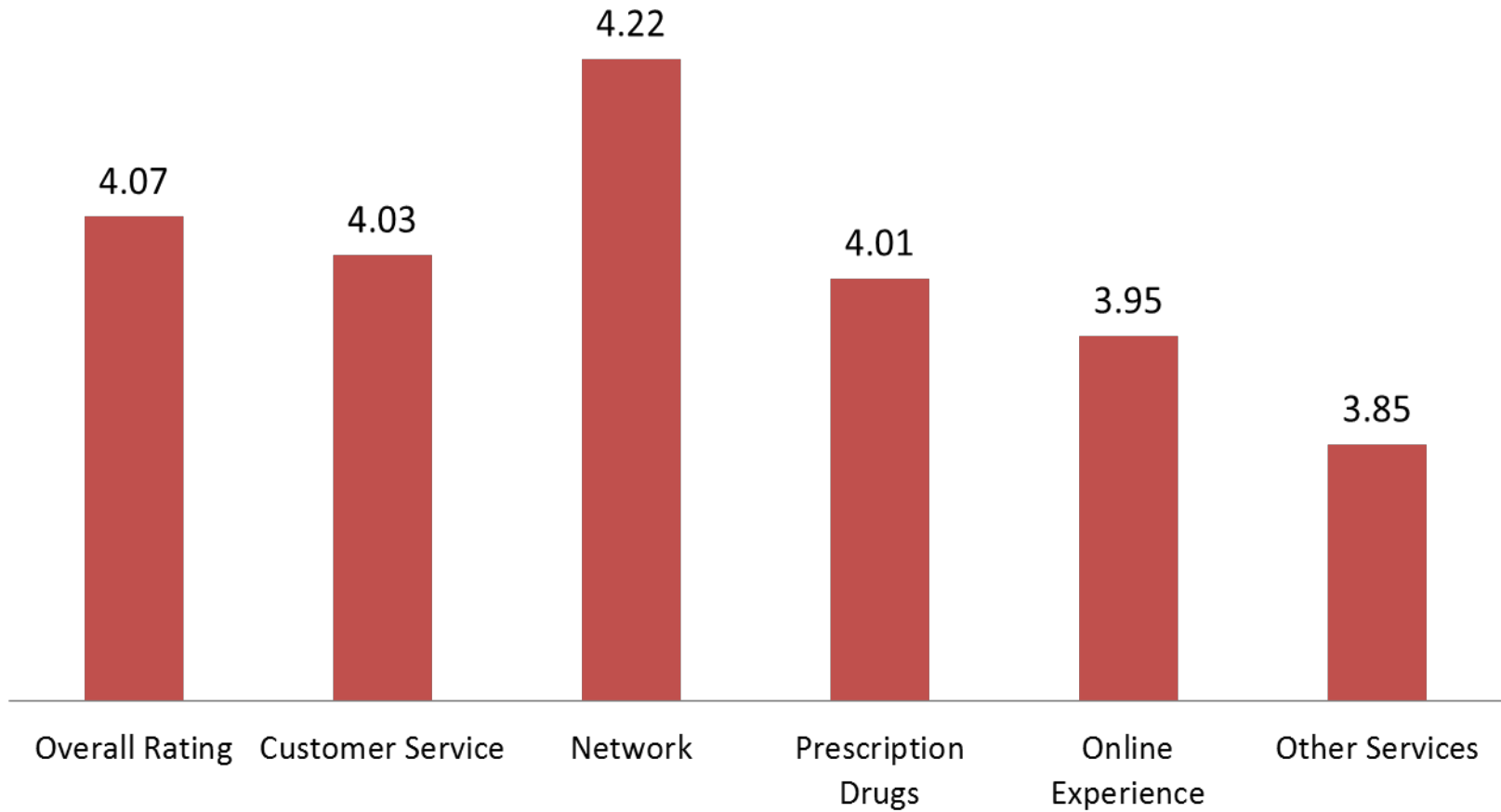
- 84% liked being able to choose their carrier (and associated provider network)
- Team Members were very positive about the enrollment website and decision-making tools that Aon provides as part of the Exchange experience
 - Health plan comparison chart
 - Provider directories for each health plan
 - Prescription coverage tool
 - Estimate my usage and “Need Help Deciding?” tools
 - Links to carrier websites
- 76% said the Aon site made it easy to compare options, made it easy to enroll and that the confirmation process assured them that their choices had been saved
- Two-thirds said the site was easy to navigate
- Some employees opted up from prior plan levels, some employees opted down. Overall, more enrollment in “Silver” than its predecessor

Insurer Behavior



Insurer Behavior

Average Medical Ratings



Hilton's Key Recommendations and Future State

DO:

- Look 5-10 years into the future
- Evaluate exchanges for retirees, part time employees, lower paid, and active full time employees
- Evaluate your current health plan pricing strategy
 - Regional vs national pricing structure
 - Integration of insured and self-insured plans
 - Pure actuarial vs behavioral modification to actuarial value

Do NOT:

- Underestimate your employees —they can handle an exchange approach

The Future and what still matters:

- Carriers WILL compete for your business if they know they need to
- The consumer experience created by Aon on the exchange platform is well-received
- The choice of insurers, networks, plan designs, and price points are all important to employees-exchanges can deliver that
- Population health still matters
- Best-in-class clinical care still matters

Smart Decision-Making





**American
Red Cross**

Private Health Insurance Exchange Discussion

Employee Benefit Research Institute

Washington, D.C.

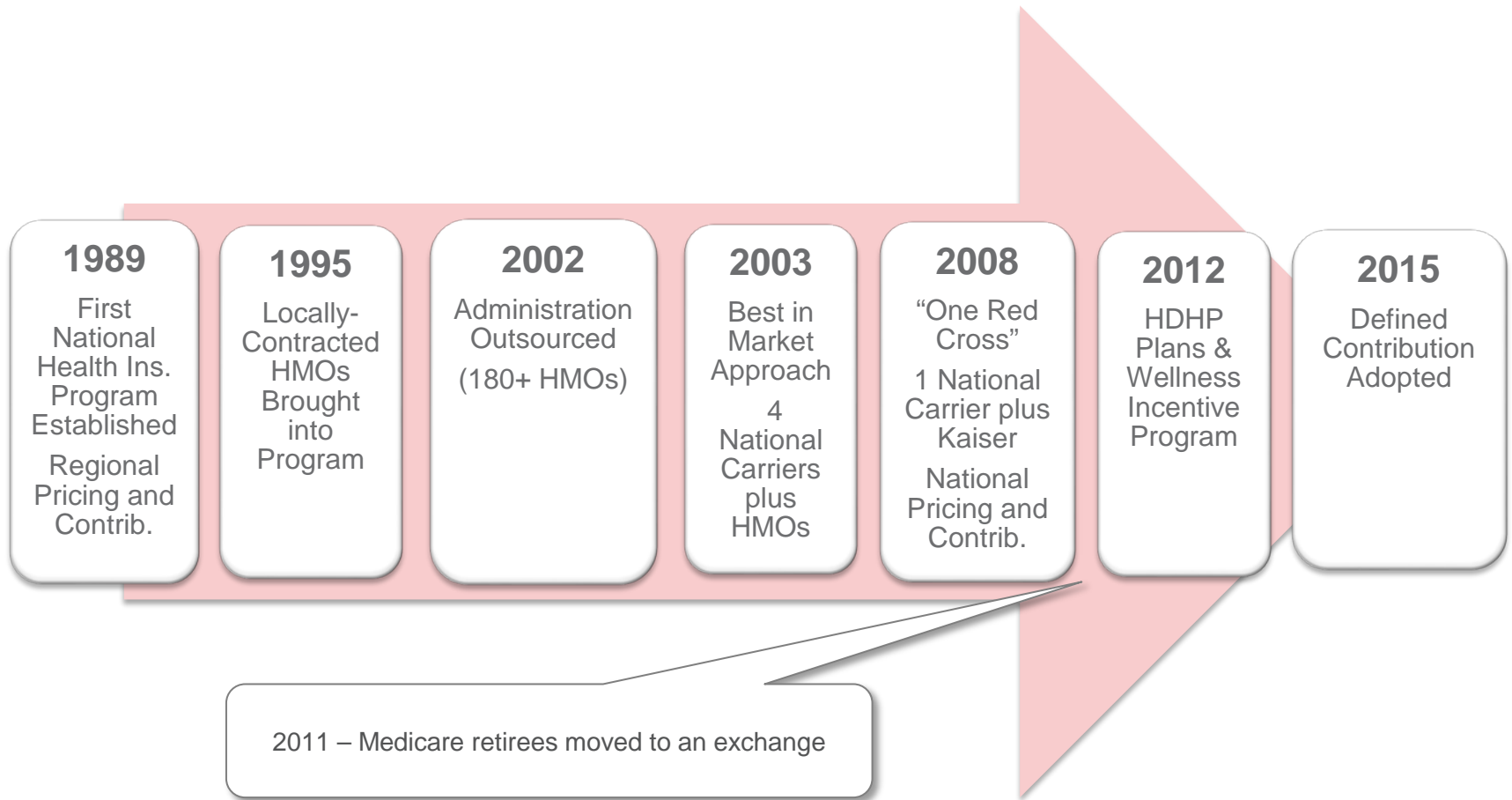
May 14, 2015

David Burroughs
Sr. Consultant, Total Rewards & HR Policy

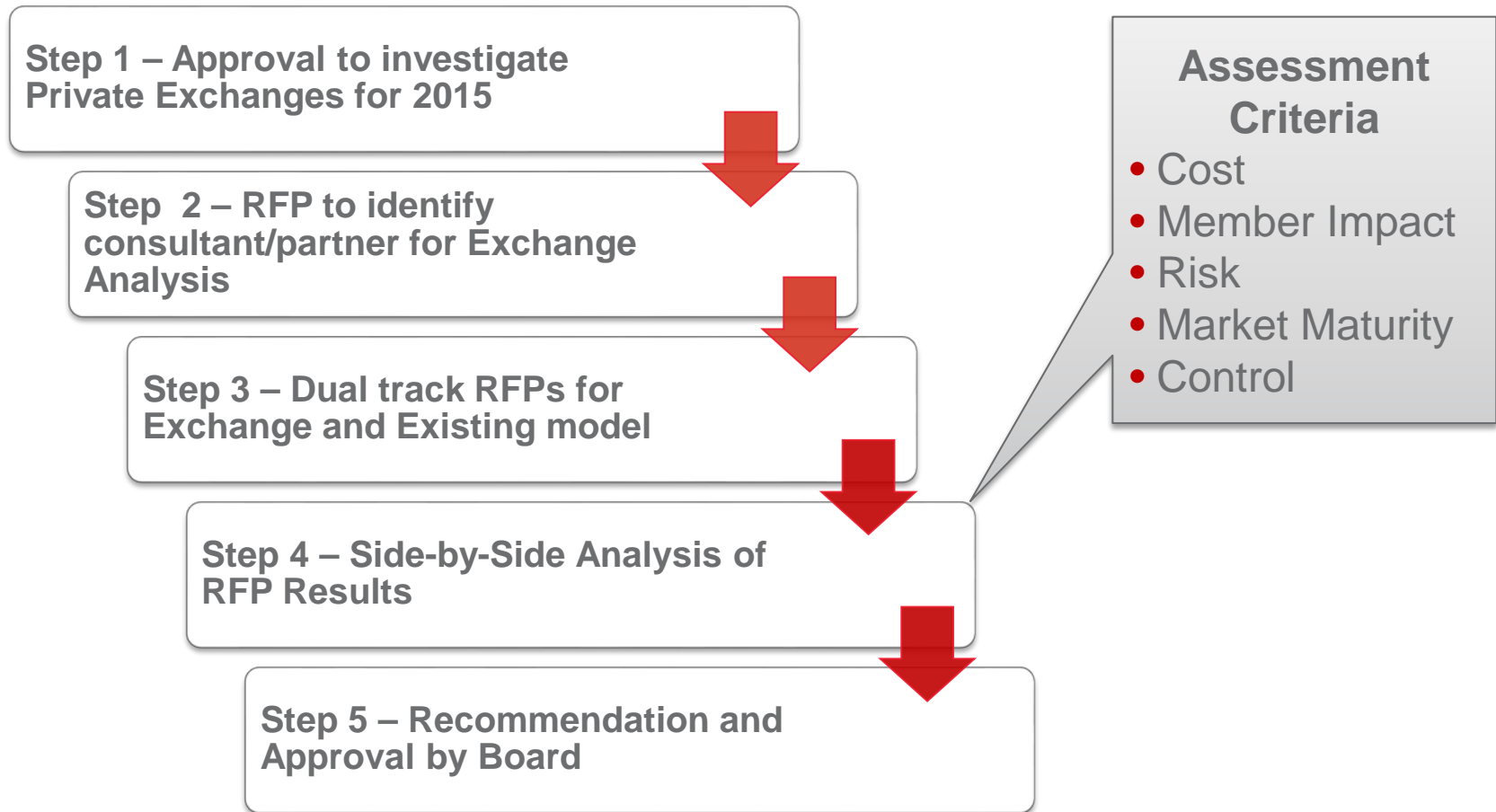
Who We Are

- \$3.1 billion humanitarian services organization
- 23,000+ benefit eligible employees
 - Including 4,100 collectively bargained under 67 contracts
- Five lines of service
 - Biomedical – blood collections, testing, sales and distribution
 - Disaster – response to national and local emergencies
 - Preparedness/Health & Safety – CPR, First Aid, Lifeguard training
 - Armed Forces – liaison between service members and families
 - International – support and response to international emergencies
- Locations in all 50 states and U.S. territories, plus overseas
 - 36 Blood Services regions
 - 495 Chapters
 - 52 Armed Forces stations

Where We've Been



What We Did



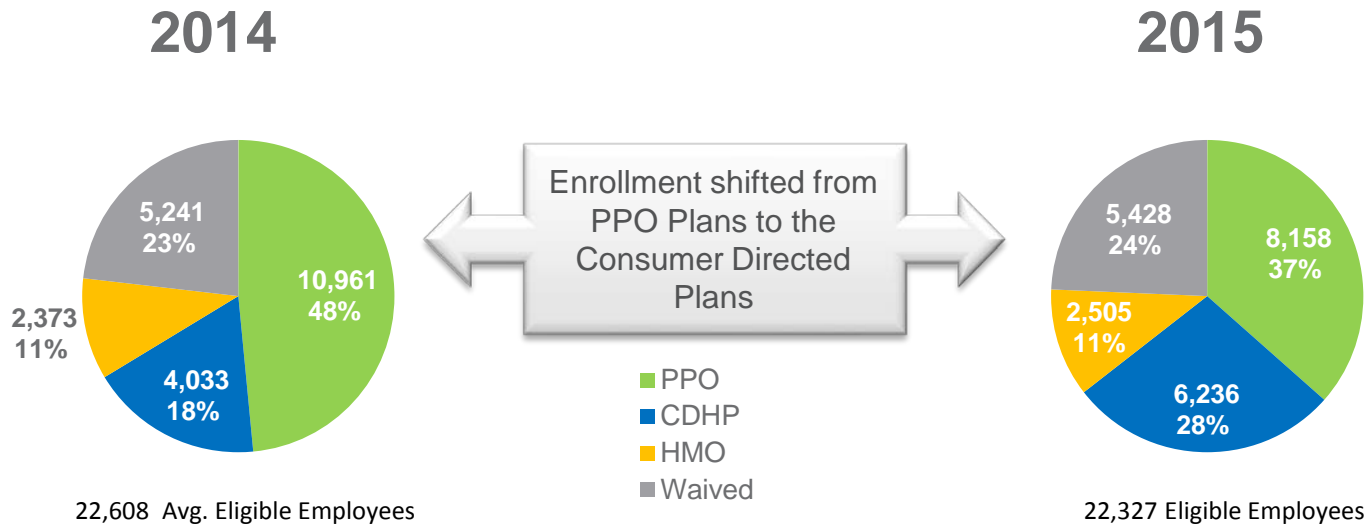
Results

Assessment Criteria	Conclusion
Cost	A reduction in the organization's healthcare benefits cost would have been a positive aspect of moving to an Exchange. However, Red Cross could achieve cost savings through plan design changes and employee contributions as well as leveraging the traditional RFP proposals
Member Impact	While the impact on membership could have been eased through strong communications, moving to an Exchange would have been a meaningful impact on the majority of employees.
Risk	Although there would not have been annual claims fluctuation risk, there was the risk of carrier volatility year over year, as well uncertainty of the Exchange's economic model
Market Maturity	Given leadership's position on Red Cross avoiding being the first to market in adopting benefit practices, the lack of market maturity was a primary reason why Red Cross did not move to an Exchange for 2015
Control	The Exchange would have meant loss of control over plan management activities, as well as reverting back to regional plan costs and designs.

What We Decided for 2015

- Stay with current model
 - Continue to monitor the Exchange market for later consideration
 - Redesign current model to prepare for future move
- Change the plans offered
 - 2 HDHP (Bronze and Silver)
 - 2 PPOs (Silver and Gold)
 - Kaiser HMO with deductible and coinsurance
- Change the contribution strategy
 - Adopt Defined Contribution model
 - Red Cross contribution is based on the Silver HDHP plan
 - 90% employee only/75% dependent tiers
 - Full buy-up or buy-down to other plans

What We've Seen



(\$PEPM)	2014	2015 (Old)	2015 (New)	2015 YTD
Total Cost	\$ 858	\$ 915	\$ 866	\$ 861
Employee Share	\$ 153	\$ 167	\$ 164	\$ 164
Red Cross	\$ 705	\$ 748	\$ 702	\$ 697
Increase over 2014				
Employee	-	9.2%	7.2%	7.2%
Red Cross	-	6.1%	-0.4%	-1.1%

Questions?



Not all heroes wear capes.

#BeAHero



About the Red Cross

Since its founding in 1881, the Red Cross has been the nation's premier emergency response organization. As part of a worldwide movement that offers neutral humanitarian care to the victims of war, the Red Cross distinguishes itself by also aiding victims of devastating natural disasters. Over the years, the organization has expanded its services, always with the aim of preventing and relieving suffering.

Today, in addition to domestic disaster relief, the Red Cross offers compassionate services in five other areas: community services that help the needy; support and comfort for military members and their families; the collection, processing and distribution of lifesaving blood and blood products; educational programs that promote health and safety; and international relief and development programs.

Our volunteers, employees, and local chapters mobilize and respond to emergencies in homes, communities, and throughout the world. Some four million people give blood through the Red Cross, making it the largest supplier of blood and blood products in the United States. The Red Cross helps thousands of U.S. service members separated from their families by military duty to stay connected. As part of the International Red Cross and Red Crescent Movement, a global network of 186 national societies, the Red Cross helps restore hope and dignity to the world's most vulnerable people.

An average of 91 cents of every dollar the Red Cross spends is invested in humanitarian services and programs. The Red Cross is not a government agency; it relies on donations of time, money, and blood to do its work. The Red Cross is headquartered in Washington, D.C. More information is available on the Internet at www.redcross.org.

Employee Benefits Research Institute

EXAMINING PRIVATE HEALTH INSURANCE EXCHANGES FOR ACTIVE EMPLOYEES

May 14, 2015

Chris Calvert
SVP, Health Practice Leader

ccalvert@sibson.com

Private Exchange Misconceptions

- Moving to a Private Exchange is a move to Defined Contribution Healthcare
- Private Exchanges eliminate claims fluctuation and trend risks for employers
- By moving to a Private Exchange an employer avoids the Excise Tax
- Private exchanges allow the employer to stop worrying about wellness
- By moving to a Private Exchange you pool your risk with other employers
- Private Exchange are for health insurance only
- All Private Exchanges work the same way

Should You be an Early Adopter?

Following are some of the considerations that might lead an employer to be an early adopter or to wait and see

Characteristic	Early Adopter	Wait and See
HR Role in Health Care Delivery	Want to get out	Will stay very involved
Role of Health Plans in Total Rewards	Not Important	Differentiator
Competition	Jumping On	Staying Away
Health Costs	Aberrantly High	Low
Current Participation Levels	Low	High
Health as an Asset	Not Important	Core Strategy
Turnover	High	Low
Employee Affordability	Low	High
Geographic Dispersion	National	Local
Benefit Consistency (need to harmonize)	Not Important	Important
Need for Technology Upgrade	Urgent	Not pressing
Desire for new/additional program offerings	Great	Not necessary

Employer Feedback

What We Have Seen/Heard So Far...

➤ From those who have moved:

- Strong administrative burden on lean HR staff post-ACA; movement to an exchange allowed these employers to offload this burden at little to no cost
- Opportunity for savings outweighed other factors
- Able to provide “more” to employees than previously able to administer

➤ From those who have remained in employer plans:

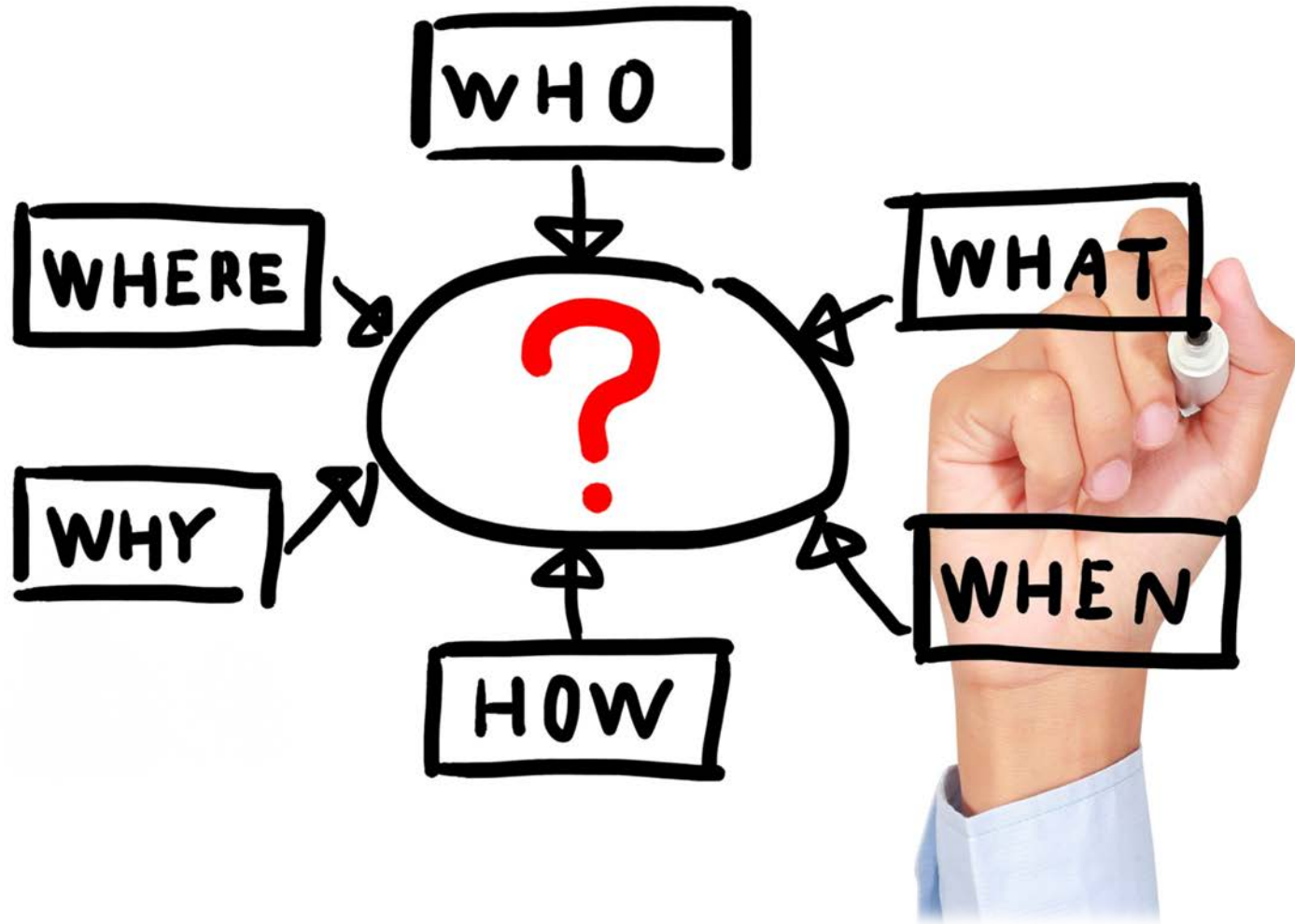
- Not ready to be a first adopter of significant change—is this just a fad, or really the future?
- Too much change from current state for employees; need to phase change in to be more “exchange ready”
- Administration platform issues...and concern with being stuck with a bad decision due to difficulty to move
- Doesn't provide value that can't be offered through in-house administration
- Prefer to manage benefits on their own

The Employee Experience

What You Say	What Employees Hear; What They Think
You have more choice	I have more decisions to make; Spare me...I'm on overload
You have new tools at your fingertips	I have to learn how to use something new; I don't know how to use the last thing that was "new"
Contact the Exchange if you have questions	Now I have to call another customer service department and deal with them; I want to speak with someone I know and trust
Now you can learn the real cost of medical tests and procedures, and find the most cost-effective, high quality care options	I'm being asked to make decisions I'm not equipped to make; I don't have the time to do this
You will have lower-cost coverage options available	I'll have lower-quality health care options available; How will I know if I have the right coverage?

Understanding your population and their experience in navigating the health insurance system is essential to success

Questions



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Panel 2: Implications and Outcomes of Various Policy Proposals for Retirement Security

EBRI-ERF Policy Forum #76
Thursday, May 14, 2015

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Implications and Outcomes of Various Policy Proposals for Retirement Security

EBRI-ERF POLICY FORUM

May 14, 2015

Jack VanDerhei
Research Director, EBRI

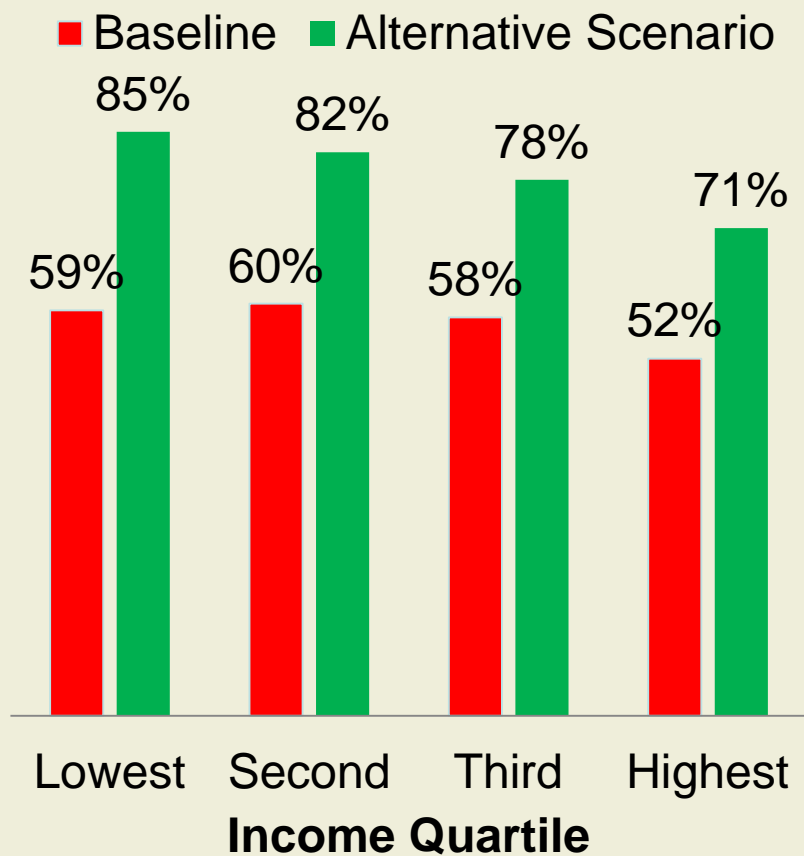
Outline

- Changes to the Retirement System: Impact on Current 401(k) Participants
 - Universal Adoption of a Minimum 3% Default Rate and 10% Escalation Cap
 - Assuming Employees Continue Recent Contribution Rates Across Job Changes
 - Impact of a Proposed Stretch-Match Alternative to the PPA Safe Harbor
- Automatic IRAs: Impact on all Households ages 35-64
 - Impact on the Probability of a “Successful” Retirement
 - By Age and Employer Size
 - Impact on Retirement Deficits

Changes to the Retirement System: Impact on Current Participants in Automatic-Enrollment 401(k) Plans With Automatic Escalation

- Only measuring 401(k) balances and IRA balances originating from 401(k) rollovers
 - Different from RRR and RSS analysis later
 - Includes job change and leakages
- Converts to real annuity at age 65
- Adds in currently scheduled Social Security benefits
- Computes percentage expected to have combined income of at least 80 percent of age 64 earnings

Percentage of Successful* Retirements for Automatic-Enrollment 401(k) Plans With Automatic Escalation,** by Income Quartile: Impact of Universal Adoption of a Minimum of 3% Default Rate and 10% Plan-Specific Escalation Cap (Assumes Employees Continue Recent Contribution Rates Across Job Changes)



* "Success" is defined as achieving an 80 percent real replacement rate from Social Security and 401(k) accumulations combined as defined in VanDerhei and Lucas (2010). The population simulated consists of 401(k) participants currently ages 25–29. Workers are assumed to retire at age 65 and all 401(k) balances are converted into a real annuity at an annuity purchase price of 18.62.

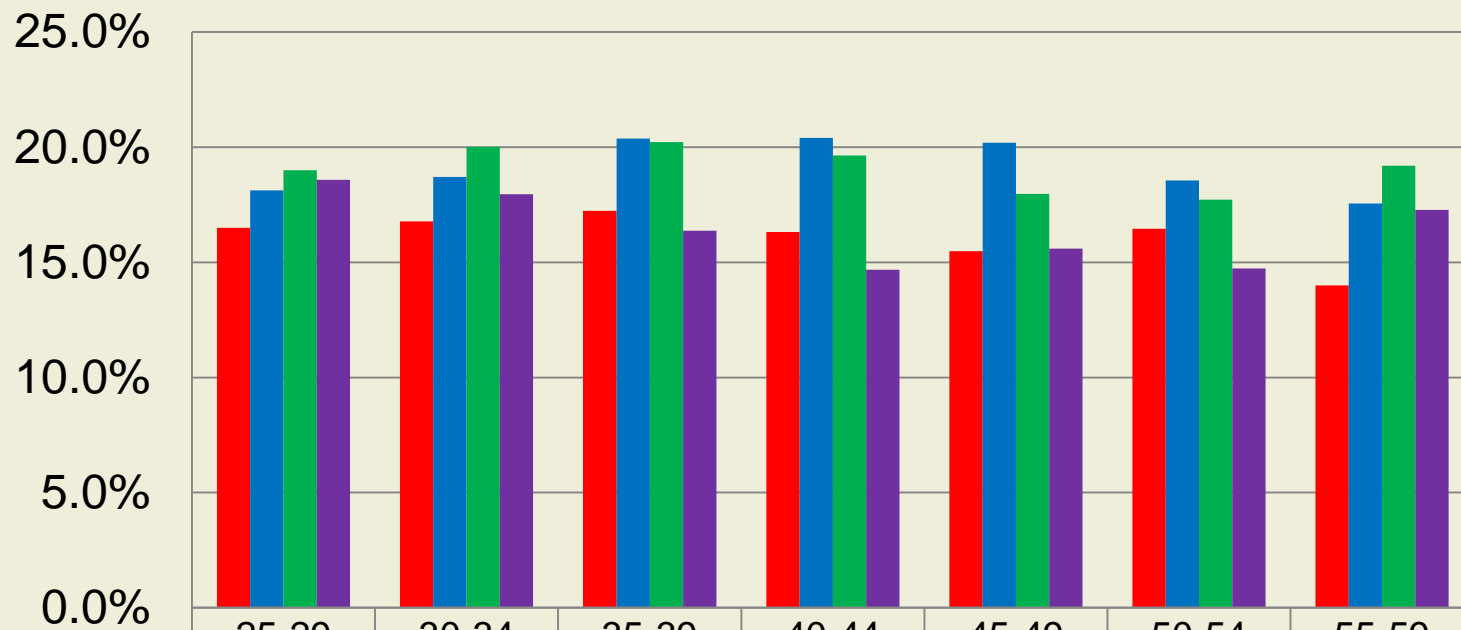
** Plans under the alternative scenario are assumed to have automatic escalation with a 1 percent of annual compensation increase and *plan-specific* default contribution rates with a minimum of 3 percent up to a *plan-specific* escalation limit with a minimum of 10 percent. Employees are assumed to *retain* their previous level of contributions when they participate in a new plan and *opt out* of automatic escalation in accordance with the probabilities in VanDerhei (September 2007).

Changes to the Retirement System: Impact of a Proposed Stretch-Match on Current 401(k) Participants

- Measuring the impact of a proposed alternative to the PPA safe harbor:
 - Default at 6 percent
 - Auto increase of 2 percent per year until 10 percent
 - Employer match of:
 - 50 percent on the first 2 percent, and
 - 30 percent on the next 8 percent
- How to model something that does not exist (yet)?
 - Starts with the same technique we developed for VE 401(k) plans*
 - Looks at the incentives provided for each 1 percent of compensation
 - e.g., able to differentiate between employee behavior for a 50 percent match on the first 6 percent vs. 100 percent match on the first 3 percent
 - Expands to isolate and simultaneously predict joint influence of:
 - Default contribution rates
 - Auto increase (yearly interval and maximum limits)
 - Level of employer match rates at each 1 percent of compensation

*VanDerhei, J. L. Copeland, C. (2001), [A Behavioral Model for Predicting Employee Contributions to 401\(k\) Plans](#). ***North American Actuarial Journal***.⁵⁸

Percentage increase in 401(k) accumulations* at age 65 from **FUTURE employee contributions** by age and income quartile if proposed stretch-match safe harbor was used instead of the PPA safe harbor (assumes employees revert back to default on job change)

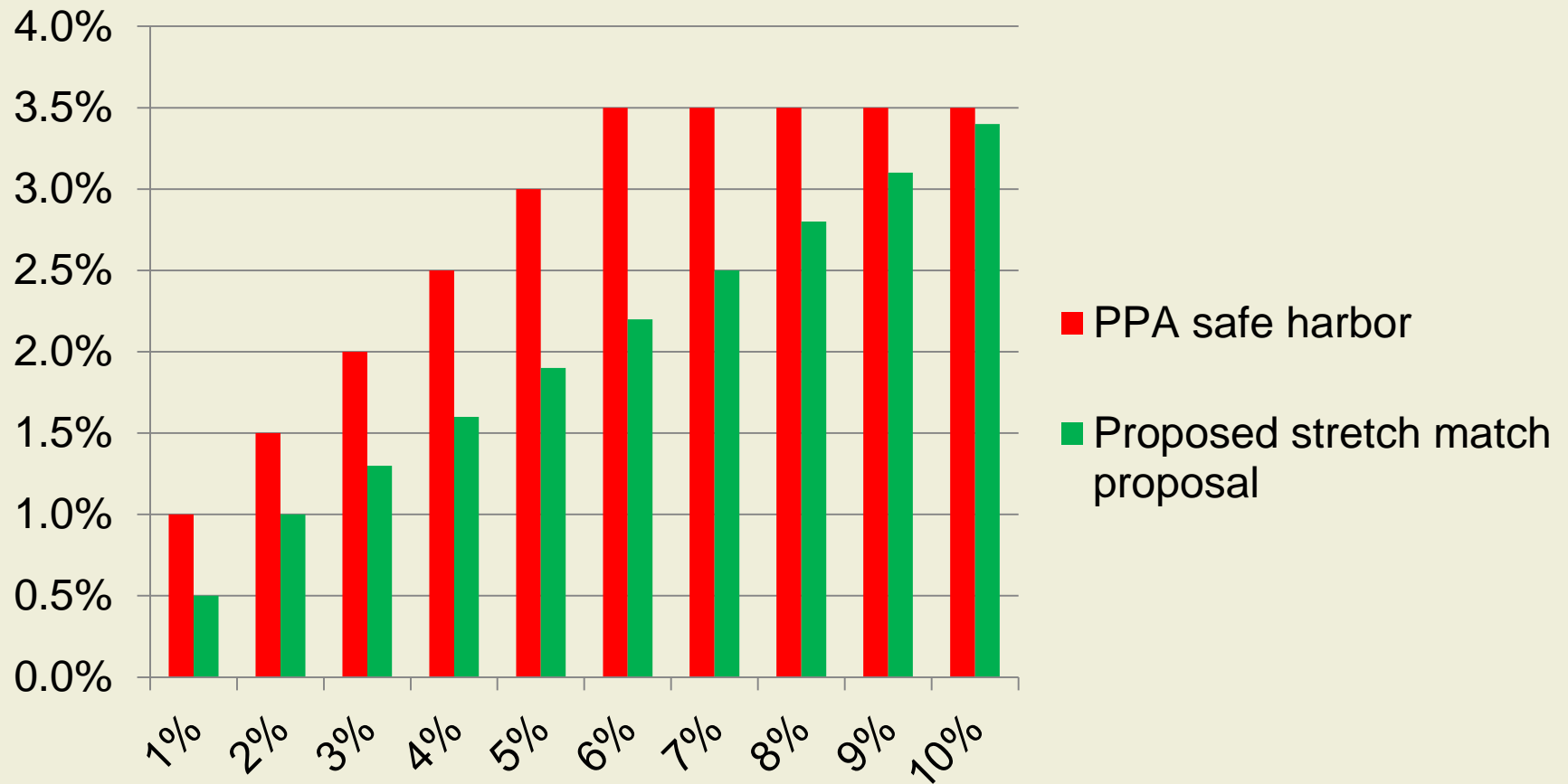


■ Lowest income quartile	16.5%	16.8%	17.2%	16.3%	15.5%	16.5%	14.0%
■ Second income quartile	18.1%	18.7%	20.4%	20.4%	20.2%	18.6%	17.6%
■ Third income quartile	19.0%	20.0%	20.2%	19.6%	18.0%	17.7%	19.2%
■ Highest income quartile	18.6%	18.0%	16.4%	14.7%	15.6%	14.7%	17.3%

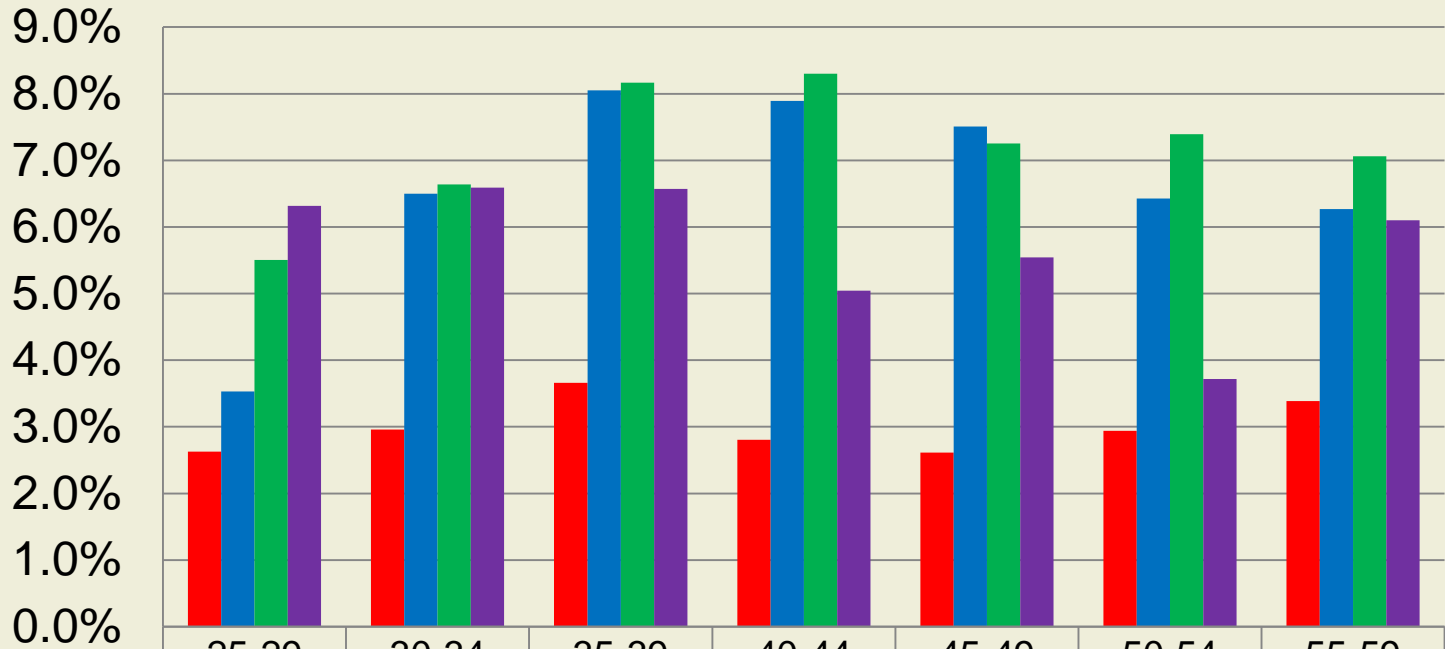
Source: Employee Benefit Research Institute Retirement Security Projection Model® Versions 2262 and 2263.

* This includes 401(k) balances as well as IRA balances rolled over from 401(k) plans.

Employer Match as a Function of Employee Contribution



Percentage increase in 401(k) accumulations* at age 65 from FUTURE employee AND EMPLOYER contributions by age and income quartile if proposed stretch-match safe harbor was used instead of the PPA safe harbor



	25-29	30-34	35-39	40-44	45-49	50-54	55-59
■ Lowest income quartile	2.6%	3.0%	3.7%	2.8%	2.6%	2.9%	3.4%
■ Second income quartile	3.5%	6.5%	8.1%	7.9%	7.5%	6.4%	6.3%
■ Third income quartile	5.5%	6.6%	8.2%	8.3%	7.3%	7.4%	7.1%
■ Highest income quartile	6.3%	6.6%	6.6%	5.0%	5.5%	3.7%	6.1%

Source: Employee Benefit Research Institute Retirement Security Projection Model® Versions 2262a and 2263a.

* This includes 401(k) balances as well as IRA balances rolled over from 401(k) plans.

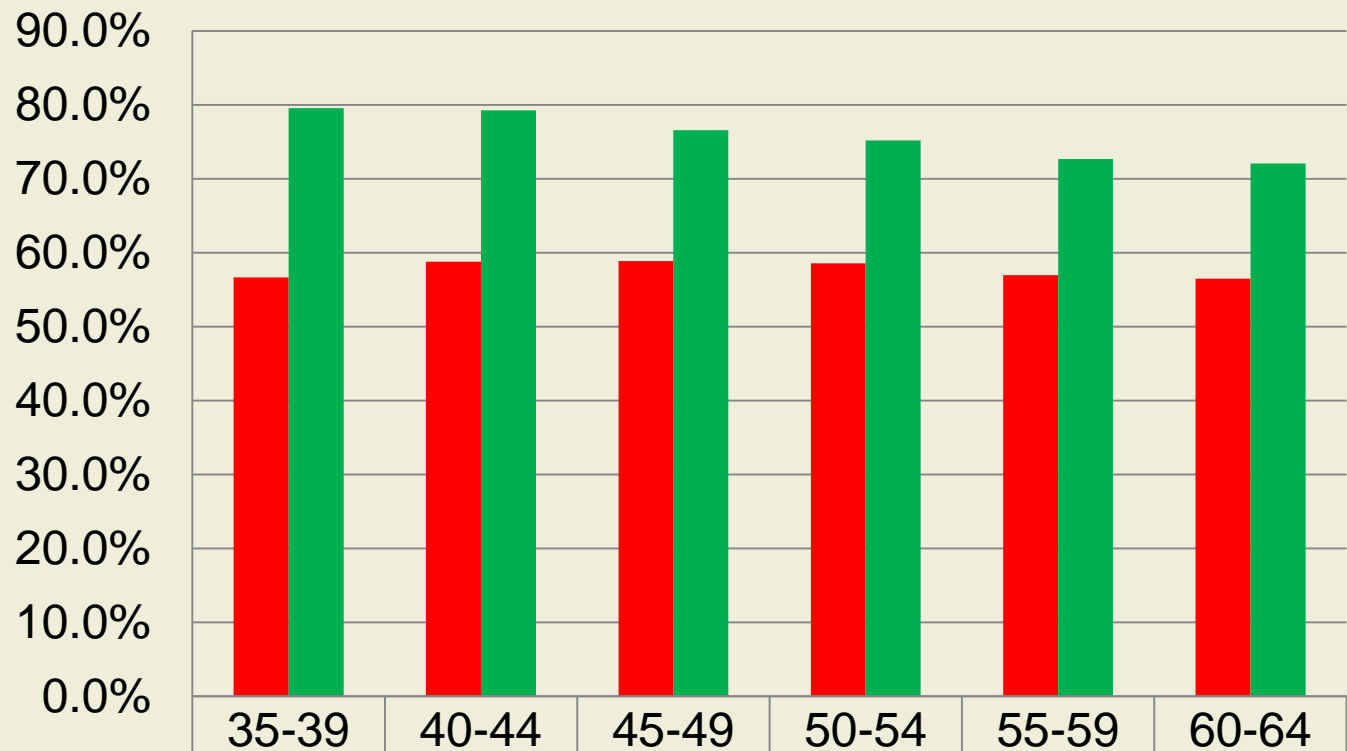
Automatic IRAs: Impact on Retirement Readiness Ratings (RRR) and Retirement Savings Shortfalls (RSS)

- RRR = probability that a HH retiring at age 65 will NOT run short of money in retirement
- RSS = present value of deficits in retirement in 2014 dollars

Previous Research on Automatic IRAs (3 percent employee contribution with no employer match)

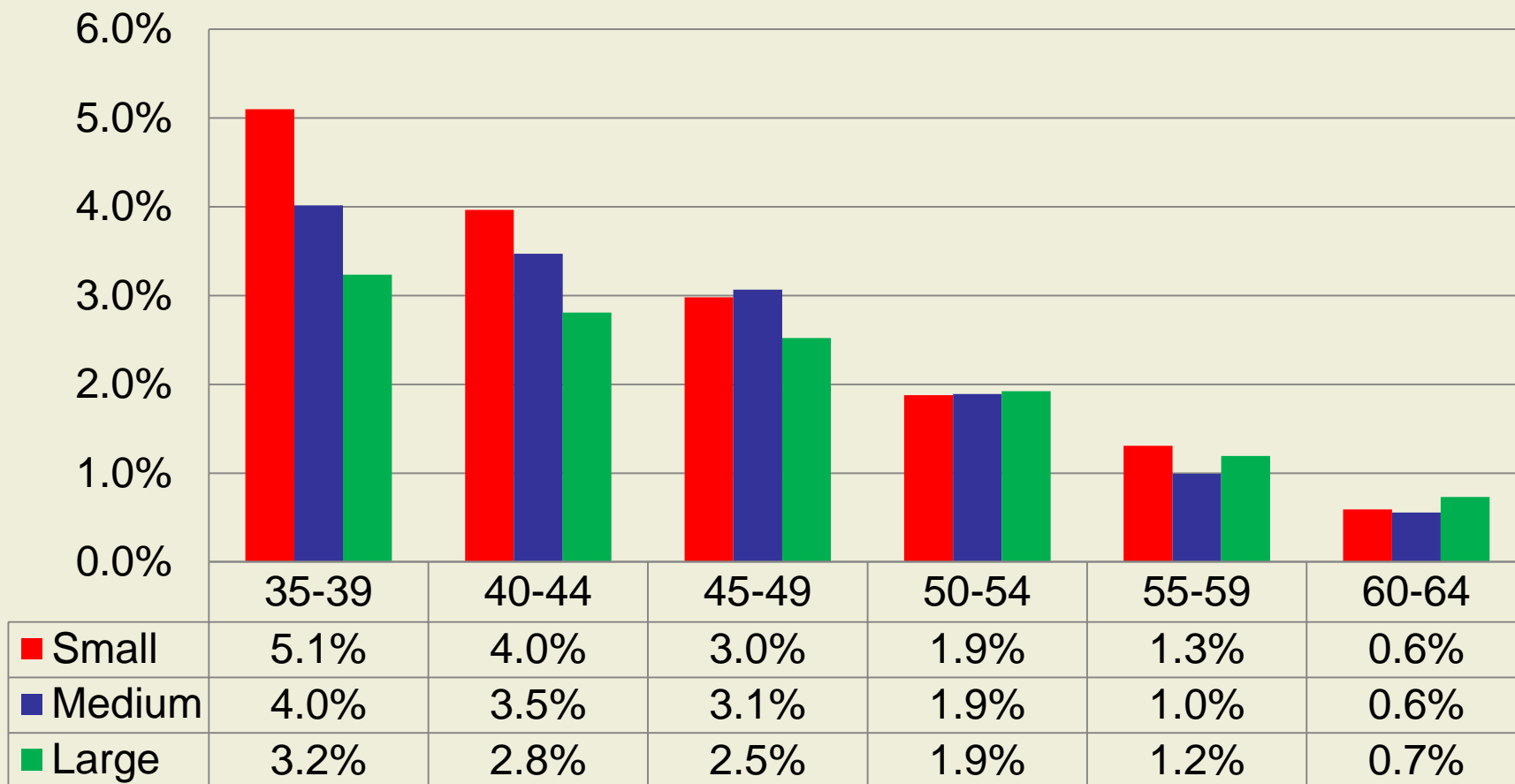
- Butrica and Johnson (2011)
 - 3 to 5 percent increase in family income after lifetime of experience
 - 6 to 13 percent increase for the bottom income quartile
 - Enrollment assumptions: 36 percent (low), 70 percent (high)
- Holmer (2012)
 - Replicates the results from Butrica and Johnson (\$1907/year)
 - Conducts 12 different sets of sensitivity analyses
 - Reduces the \$1907 to as low as \$144/year
- GAO (2013)
 - Uses PENSIM to project median changes in HH annuity under automatic IRAs for those born in 1995
 - \$1,046 overall; \$479 for lowest income quartile
- Questions left to answer
 - How much will this impact those already part way through their working careers?
 - How will this impact retirement income adequacy?
 - Will everyone annuitize?

2014 Baseline Retirement Readiness Ratings from Ages 35-64: With and Without Long-Term Care Costs



■ Including LTC costs	56.7%	58.8%	58.9%	58.6%	57.0%	56.5%
■ Assuming no LTC costs	79.6%	79.3%	76.6%	75.2%	72.7%	72.1%

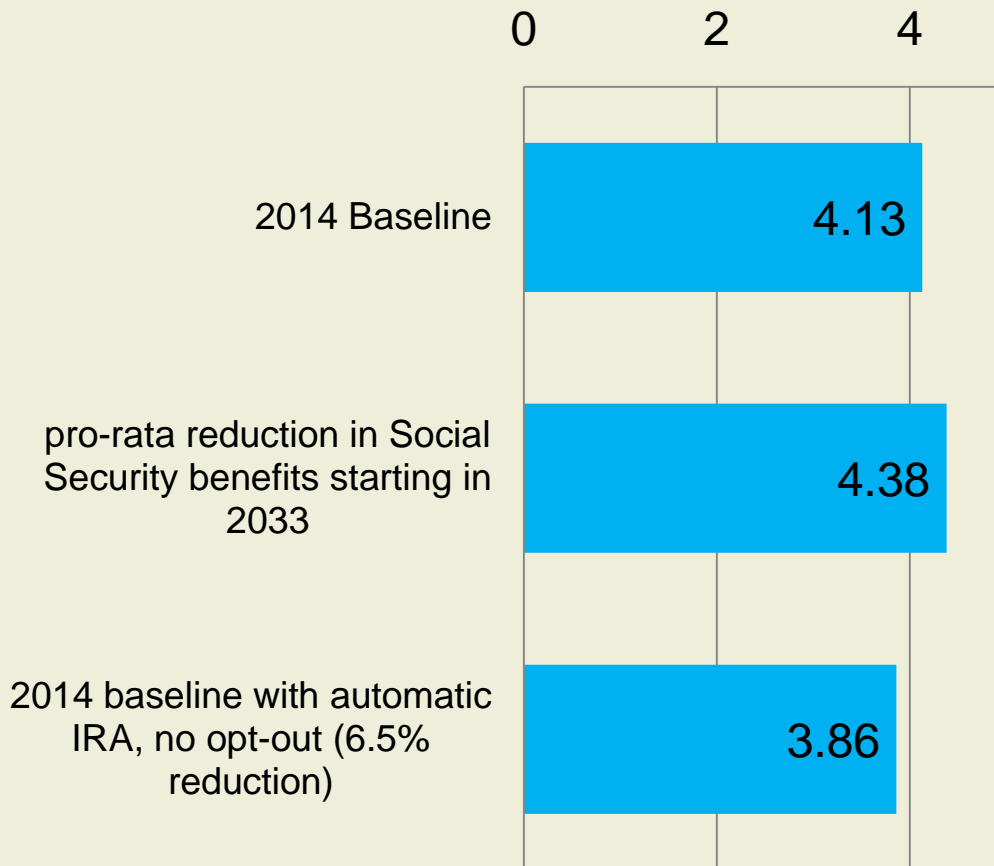
Percentage Point Improvement in Retirement Readiness Ratings (with LTC costs) by Age and Employer Size from Introducing Automatic IRA With No Size Exemption: Assumes NO Opt-out and 100 autocorrelation for employer size



Source: EBRI Retirement Security Projection Model® Version 2242.

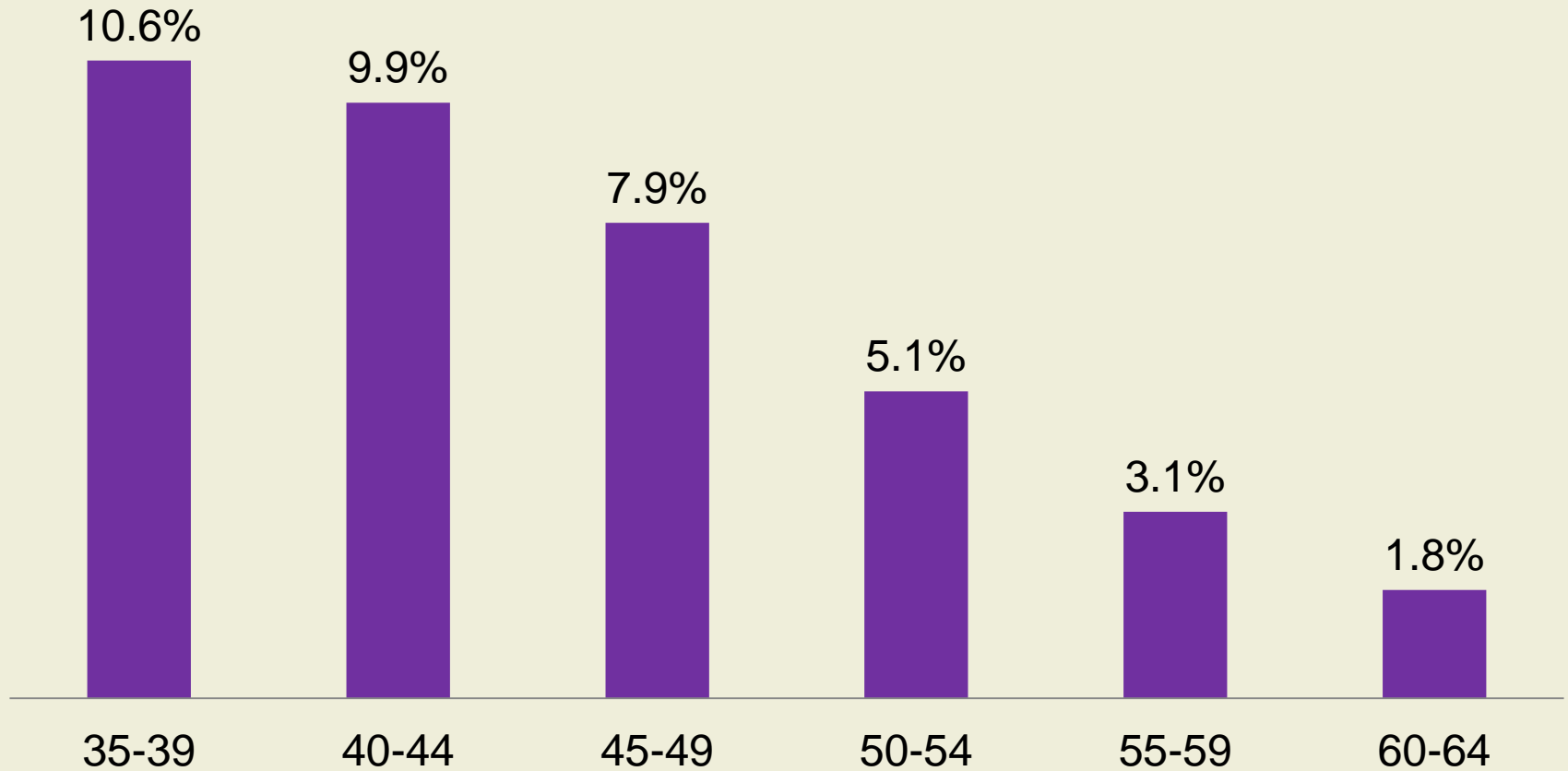
Note: Husband's Employer Size is Used to Categorize Employer Size for Married HH

Summary of the Aggregate Deficit Numbers by Scenario, with LTC Costs (Trillions of 2014 Dollars)



- Retirement Savings Shortfalls represent the present value (at age 65) of all simulated deficits in retirement
- Expressed in 2014 dollars

Reduction in Average Retirement Savings Shortfalls by Age from Introducing Automatic IRA: Assumes NO Opt-out



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EBRI-ERF Policy Forum #76
Thursday, May 14, 2015

Wireless Password: innovation