The Impact of the SECURE Act on Retirement Income Adequacy

Speakers

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Research Director, EBRI

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Moderated by:
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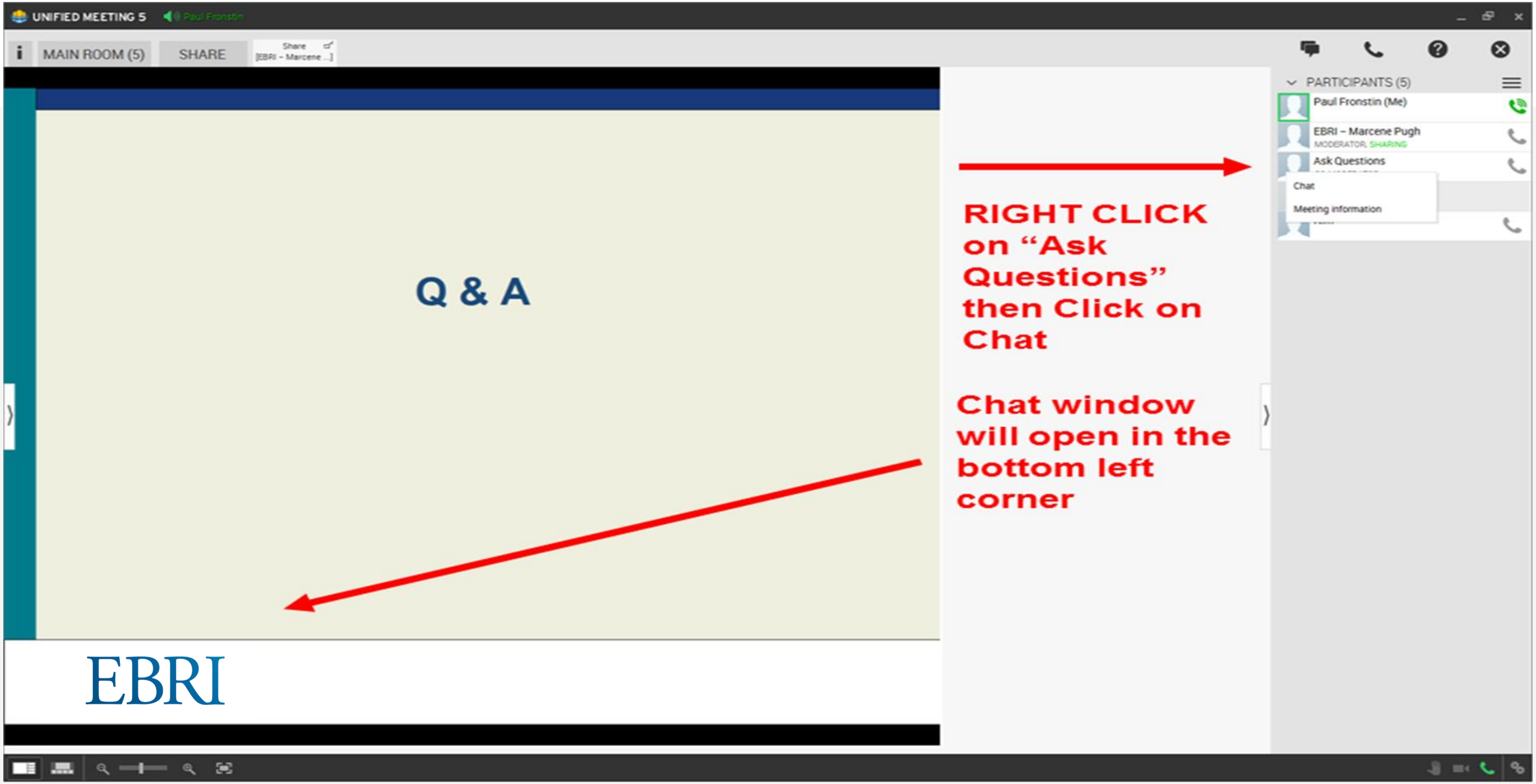
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SHARE
PARTICIPANTS (5)
Paul Fronstin (Me)
EBRI – Marcene Pugh
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Legislative Update

Robert Holcomb
Vice President, Legislative and Regulatory Affairs

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SECURE Act – The path to passage

- The Setting Every Community Up for Retirement Enhancement (SECURE) Act passed the House by a vote of 417 – 3 in May 2019 and included most of the provisions found in the Retirement Enhancement and Savings Act (RESA) with some additions.
- SECURE stalled in the Senate over concerns largely unrelated to pension reform.
- In late December, SECURE was incorporated into a year-end budget bill, the Further Consolidated Appropriations Act, 2020 (FCAA).
- FCAA passed the House on December 17, 2019, and passed the Senate on December 19, 2019. The bill was signed into law on December 20, 2019.

SECURE Act – Pooled employer plans

- Would allow completely unrelated employers to participate in a pooled employer plan (PEP)
  – A PEP may be either a qualified defined contribution plan or an IRA.
  – Must have a pooled plan provider (PPP) responsible for plan administration and a fiduciary.
- Employers still have fiduciary responsibility for the selection and monitoring of the pooled plan provider and fiduciary responsibility over investments unless delegated.
- Participating employers may not be subject to unreasonable restrictions or fees.
- The PPP must:
  – Provide required disclosures.
  – Monitor whether participating employers are taking the necessary steps to comply with ERISA and the Internal Revenue Code.

SECURE Act – Pooled employer plans

- Would eliminate the “one bad apple” rule – a rule that disqualifies the entire plan if one participating has a disqualifying event.
- Provides for filing a single 5500 for the PEP. The 5500 must include:
  - List of participating employers.
  - Estimate of the percentage of contributions made by each employer during the year.
  - Total account balance of each employer.
- The DOL could create a simplified 5500 for plans with fewer than 1,000 participants as long as no employer has more than 100 employees covered by the plan.
- Effective for plan years beginning after December 31, 2020.

SECURE Act – Lifetime income

- Elimination of a lifetime income investment option would be a distributable event.

- Would create a safe harbor for selecting annuity providers
  - The annuity provider complies with state insurance law
  - No requirement to select lowest-cost provider
  - Would meet periodic review requirements if receives an annual notice of compliance

- Would create a new requirement to at least annually provide a lifetime income disclosure
  - DOL to provide guidance
  - Effective 12 months after DOL provides guidance

SECURE Act – Tax credits

- Increase the existing start-up credit for small employers (no more than 100 employees)
  - Currently provides an annual credit for three years covering 50% of start-up costs capped at $500.
  - The cap would increase to the lesser of $250 for each non-highly compensated employee or $5,000. In no event would the credit be less than $500.

- Create a new tax credit for small employers who adopt automatic enrollment.
  - $500 credit available for three years
  - Could be used in addition to the start-up credit

SECURE Act – Safe harbor plans

- Increase cap for automatic enrollment safe harbor
  - Under the current nondiscrimination safe harbor for auto-enrollment and auto-escalation, plans may not automatically escalate a participant's contribution rate above 10%.
  - Automatic contribution rates would still be capped at 10% for first year of participation.
  - After the first year, the contribution rate limit would increase to 15%.
- Eliminate the safe harbor notice for plans that satisfy the nondiscrimination safe harbor through nonelective contributions (as opposed to matching contributions)

SECURE Act – Miscellaneous

- Would allow contributions to IRAs after age 70½
- Increases the starting age for required minimum distributions to 72
- Beneficiaries to an IRA or a DC plan must draw down the account within 10 years of the holder’s death. Exceptions:
  - Surviving spouse
  - Minor child
  - Disabled or chronically ill beneficiaries
  - Any person not more that 10 years younger than the participant or IRA holder

SECURE Act – Miscellaneous

- Would require plans to cover long-term part-time employees (three years with 500 hours)
  - Not required to make employer contributions or include in discrimination testing
  - Effective for plan years beginning after December 31, 2020
  - Not required to count years prior to 2021 for purposes of determining eligibility
- Would provide for penalty-free withdrawals for the birth or adoption of a child
  - Exempt from 10% early withdrawal penalty and mandatory 20% withholding
  - Limited to $5,000 per birth or adoption; each spouse would be eligible to receive a distribution
  - Distribution could be repaid without regard to 60-day limit on rollovers

Regulatory Agenda – SECURE Implementation DOL

- Pooled Employer Plans
  - Registration process
  - 5500 modifications
  - Prohibited transaction exemptions
- Consolidated 5500
- Annuity selection safe harbor
- Lifetime income disclosures

Regulatory Agenda – SECURE Implementation IRS

- Increased age for RMDs
- Birth or adoption distributions
- Stretch RMD guidance
- One Bad Apple rule for PEPs

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Impact of SECURE on Retirement Income Adequacy

EBRI Webinar: March 17, 2020

Full publication available at EBRI.org

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Outline of the presentation

- Brief summary of the simulation model
    - Retirement Savings Shortfalls: for those simulated to run short of money in retirement
    - Retirement Savings Surpluses: for those simulated NOT to run short of money in retirement
- Combined impact of:
    - Open MEPs
        - Under three different take-up scenarios with three different opt-out assumptions
    - Increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor, AND
    - Required coverage of long-term part-time employees
- Future Work
- Appendices
    - Impact of adding auto portability
    - Impact of Social Security reductions
    - Impact on retirement savings net surpluses
    - Additional information on the simulation model

EBRI's Retirement Security Projection Model (RSPM)

- Accumulation phase
  - Simulates retirement income/wealth to retirement age for all US households ages 35-64 from defined contribution, IRA, Social Security
    - 401(k) participant behavior based on individual administrative records
      - Annual linked records dating back to 1996
    - Social security based on current statutory benefits for baseline
      - Sensitivity analysis available for scenarios in which Trust Fund is exhausted
- Retirement/decumulation 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, long-term care (LTC) costs
- Output (Aggregated across all households in a cohort and expressed in 2019 dollars)
  - Retirement Savings Shortfalls: Present value of simulated retirement deficits at retirement age
    - Current aggregate of $3.83 trillion
  - Retirement Savings Surpluses: Present value of simulated retirement surpluses at retirement age
  - Retirement Savings Net Surplus: Present value of simulated retirement surpluses less retirement deficits at retirement age

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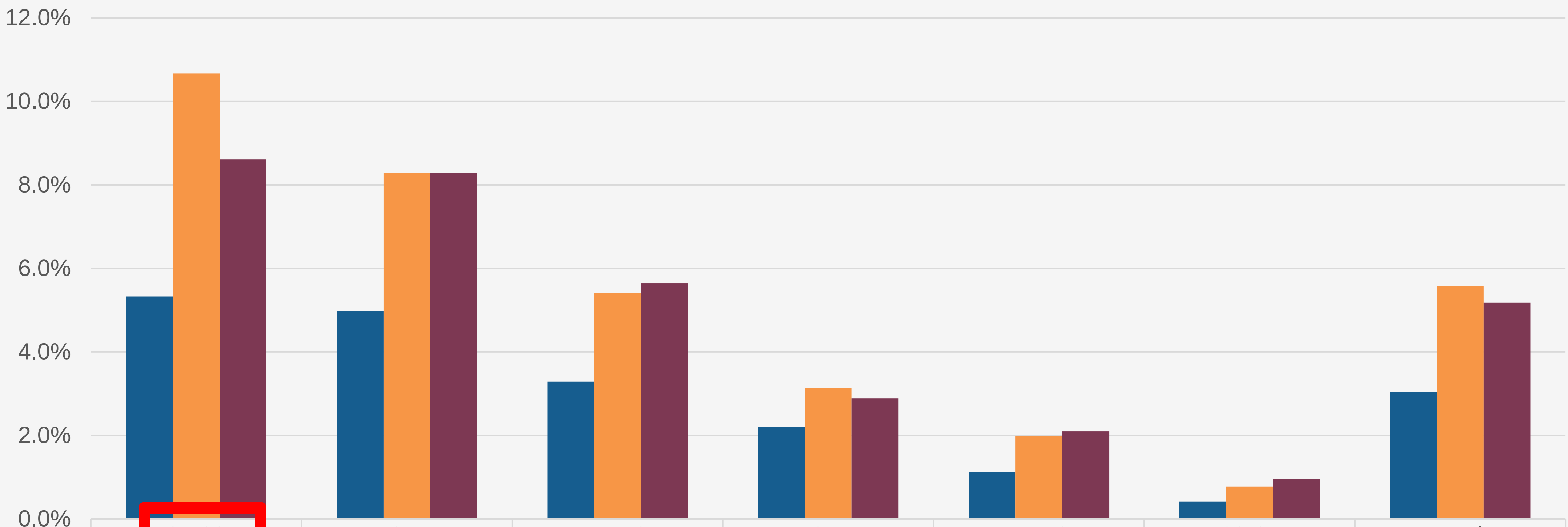
For a list of approximately 50 studies using RSPM please see: bit.ly/ebri-rspm-new

IMPACT ON RETIREMENT SAVINGS SHORTFALLS

Percentage decrease in Retirement Saving Shortfalls as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

ASSUMES 25% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

SOURCE: EBRI RSPM VERSION 3437



	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	5.3%	5.0%	3.3%	2.2%	1.1%	0.4%	3.0%
less than 100 employees	10.7%	8.3%	5.4%	3.1%	2.0%	0.8%	5.6%
100-500 employees	8.6%	8.3%	5.6%	2.9%	2.1%	1.0%	5.2%

NB: Retirement Savings Shortfall is defined as the present value of deficits in retirement valued at age 65 in 2019 dollars

Percentage decrease in Retirement Saving Shortfalls as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

ASSUMES 10% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

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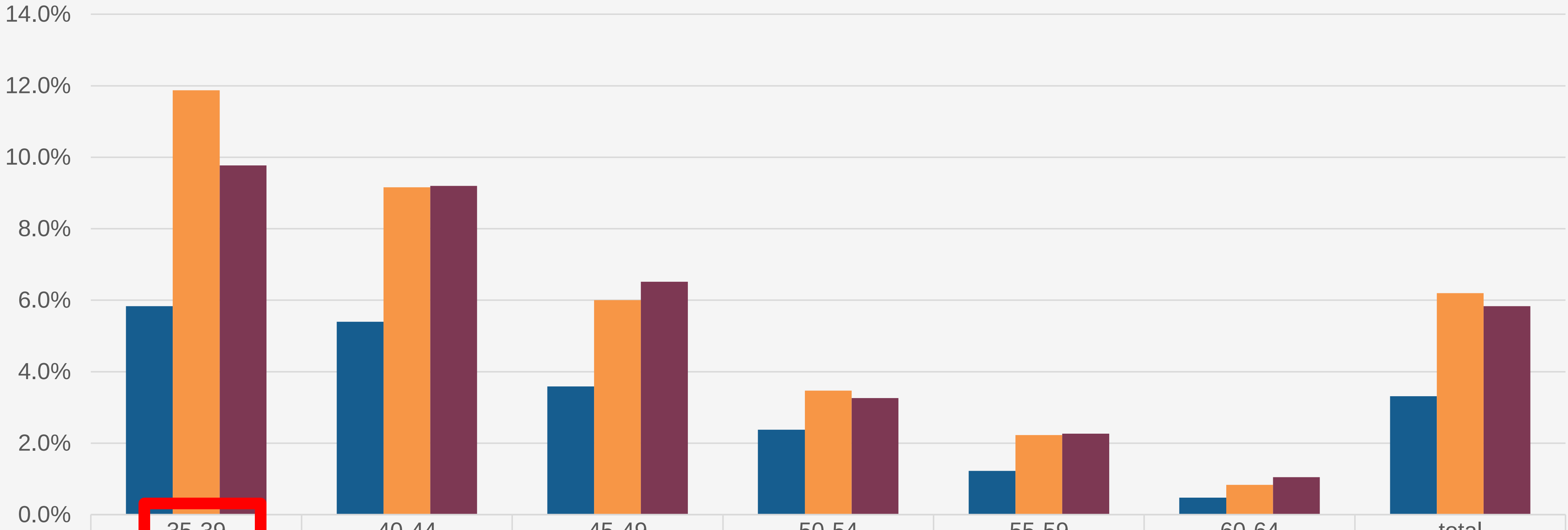

	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	5.8%	5.4%	3.6%	2.4%	1.2%	0.5%	3.3%
less than 100 employees	11.9%	9.2%	6.0%	3.5%	2.2%	0.8%	6.2%
100-500 employees	9.8%	9.2%	6.5%	3.3%	2.3%	1.0%	5.8%

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NB: Retirement Savings Shortfall is defined as the present value of deficits in retirement valued at age 65 in 2019 dollars

Percentage decrease in Retirement Saving Shortfalls as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

ASSUMES 40% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

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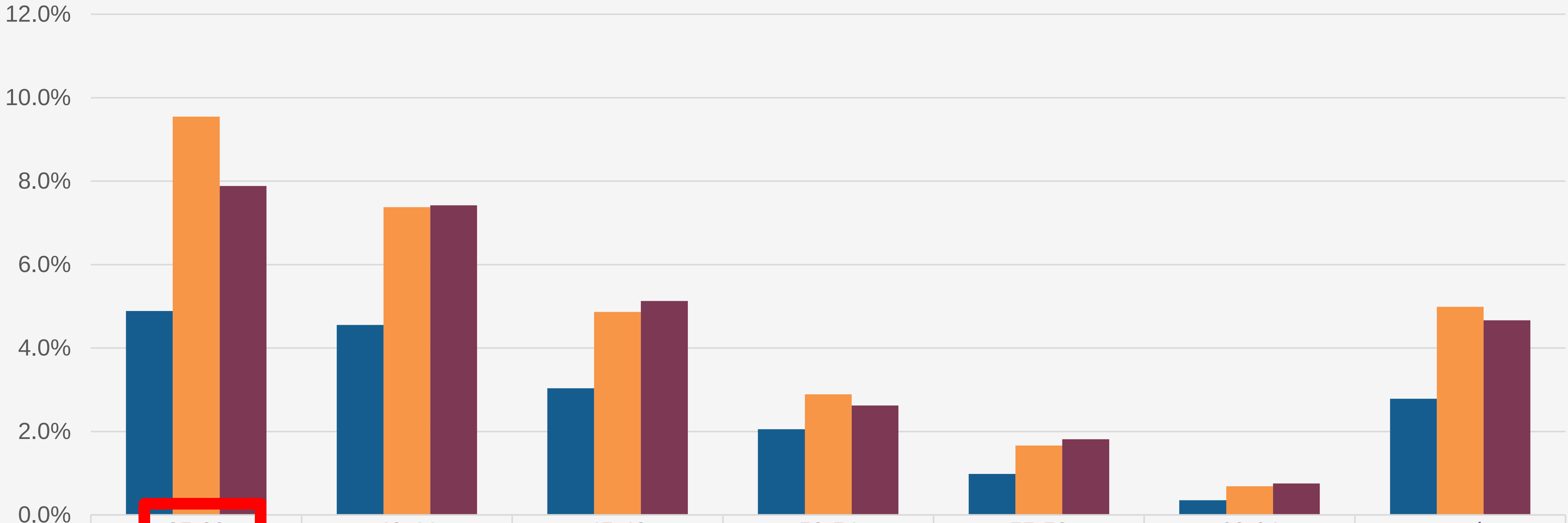

	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	4.9%	4.6%	3.0%	2.1%	1.0%	0.4%	2.8%
less than 100 employees	9.5%	7.4%	4.9%	2.9%	1.7%	0.7%	5.0%
100-500 employees	7.9%	7.4%	5.1%	2.6%	1.8%	0.8%	4.7%

NB: Retirement Savings Shortfall is defined as the present value of deficits in retirement valued at age 65 in 2019 dollars

Percentage decrease in Retirement Saving Shortfalls as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 66% take up rate

ASSUMES 25% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

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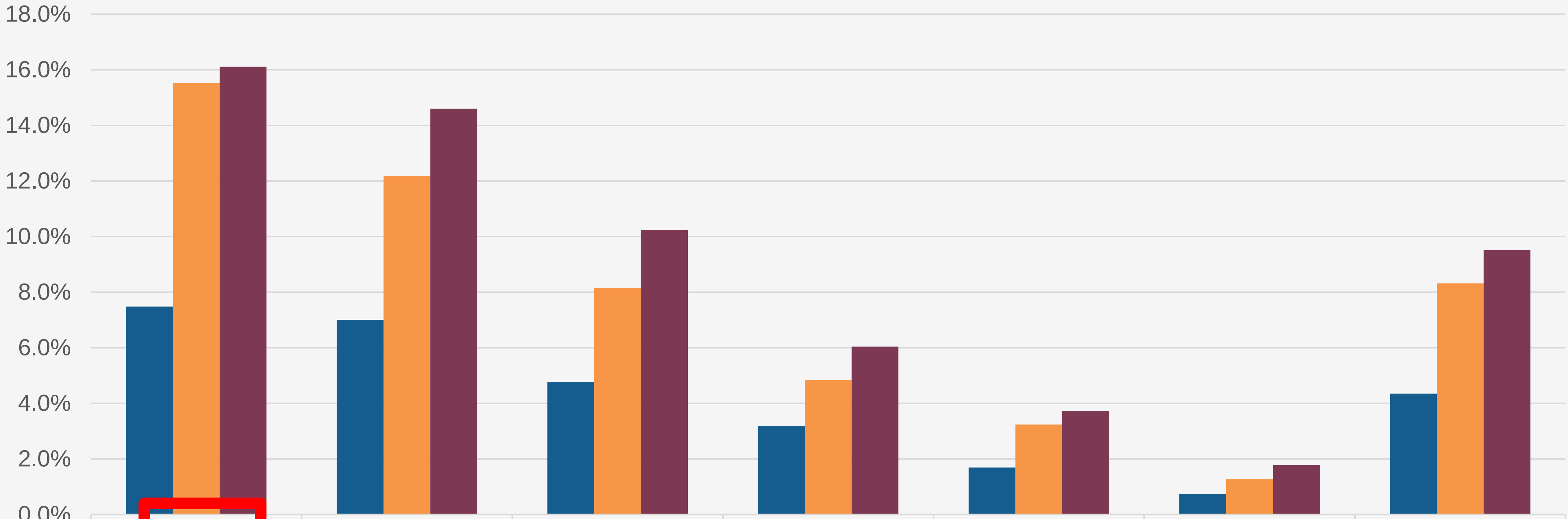

	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	7.5%	7.0%	4.8%	3.2%	1.7%	0.7%	4.4%
less than 100 employees	15.5%	12.2%	8.2%	4.8%	3.2%	1.3%	8.3%
100-500 employees	16.1%	14.6%	10.2%	6.0%	3.7%	1.8%	9.5%

NB: Retirement Savings Shortfall is defined as the present value of deficits in retirement valued at age 65 in 2019 dollars

Percentage decrease in Retirement Saving Shortfalls as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 7.3% take up rate

ASSUMES 25% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

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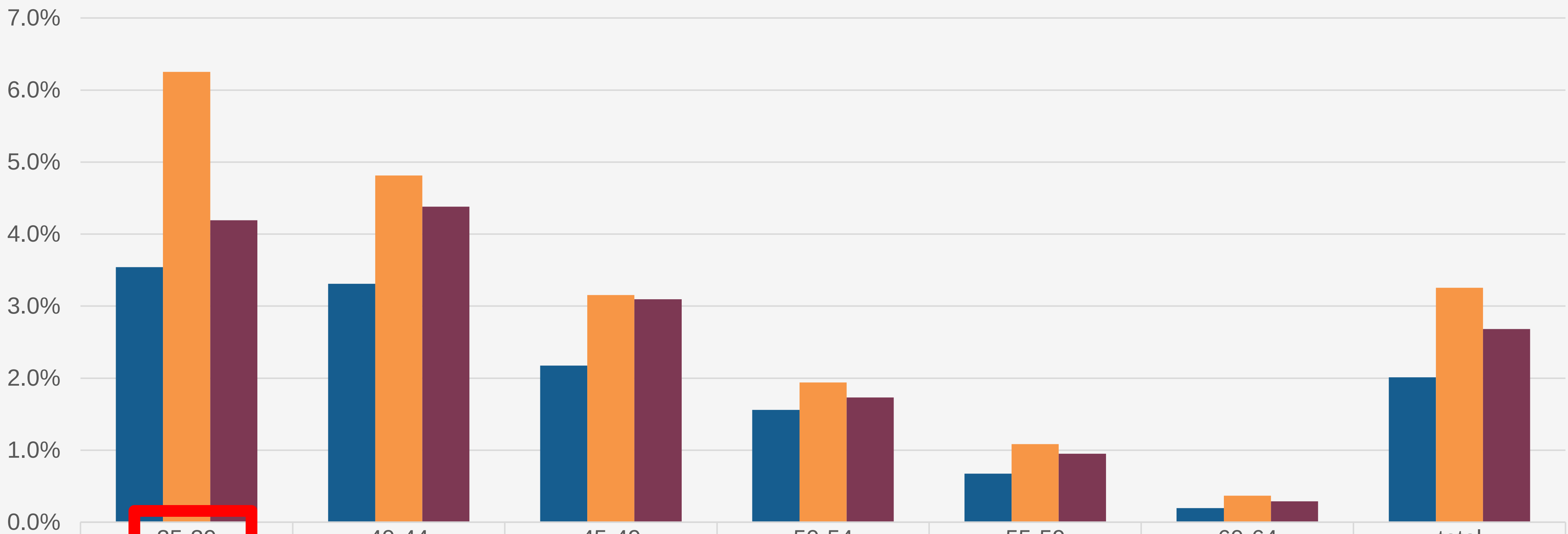

	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	3.5%	3.3%	2.2%	1.6%	0.7%	0.2%	2.0%
less than 100 employees	6.3%	4.8%	3.2%	1.9%	1.1%	0.4%	3.3%
100-500 employees	4.2%	4.4%	3.1%	1.7%	1.0%	0.3%	2.7%

NB: Retirement Savings Shortfall is defined as the present value of deficits in retirement valued at age 65 in 2019 dollars

IMPACT ON RETIREMENT SAVINGS SURPLUSES

Percentage increase in Retirement Saving Surpluses as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

ASSUMES 25% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

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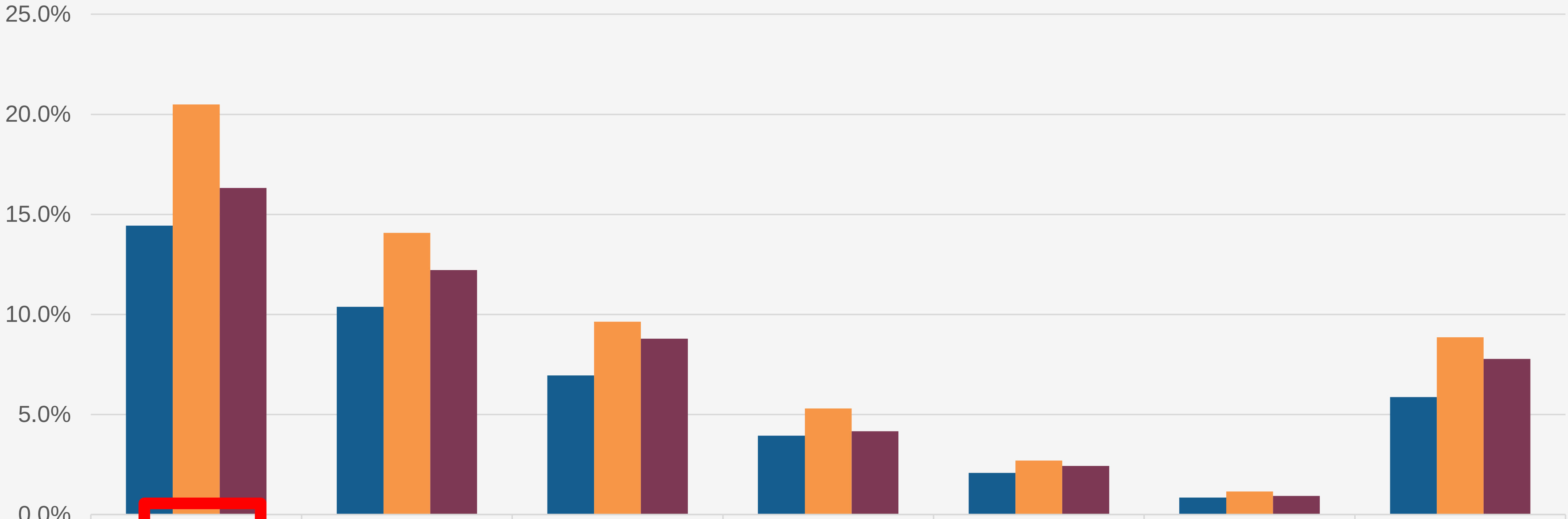

	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	14.4%	10.4%	7.0%	3.9%	2.1%	0.9%	5.9%
less than 100 employees	20.5%	14.1%	9.6%	5.3%	2.7%	1.2%	8.9%
100-500 employees	16.3%	12.2%	8.8%	4.2%	2.4%	0.9%	7.8%

NB: Retirement Savings Surplus is defined as the present value of surpluses in retirement valued at age 65 in 2019 dollars

Percentage increase in Retirement Saving Surpluses as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

ASSUMES 10% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

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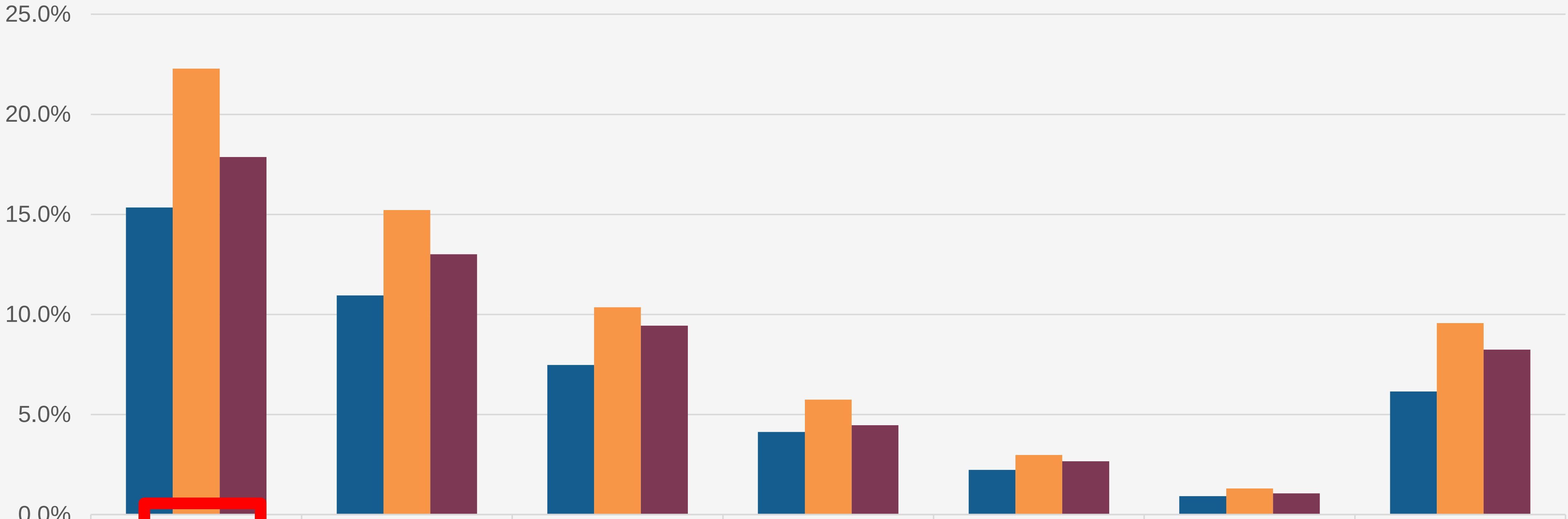

	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	15.3%	11.0%	7.5%	4.1%	2.2%	0.9%	6.1%
less than 100 employees	22.3%	15.2%	10.4%	5.7%	3.0%	1.3%	9.6%
100-500 employees	17.9%	13.0%	9.4%	4.5%	2.7%	1.1%	8.2%

NB: Retirement Savings Surplus is defined as the present value of surpluses in retirement valued at age 65 in 2019 dollars

Percentage increase in Retirement Saving Surpluses as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

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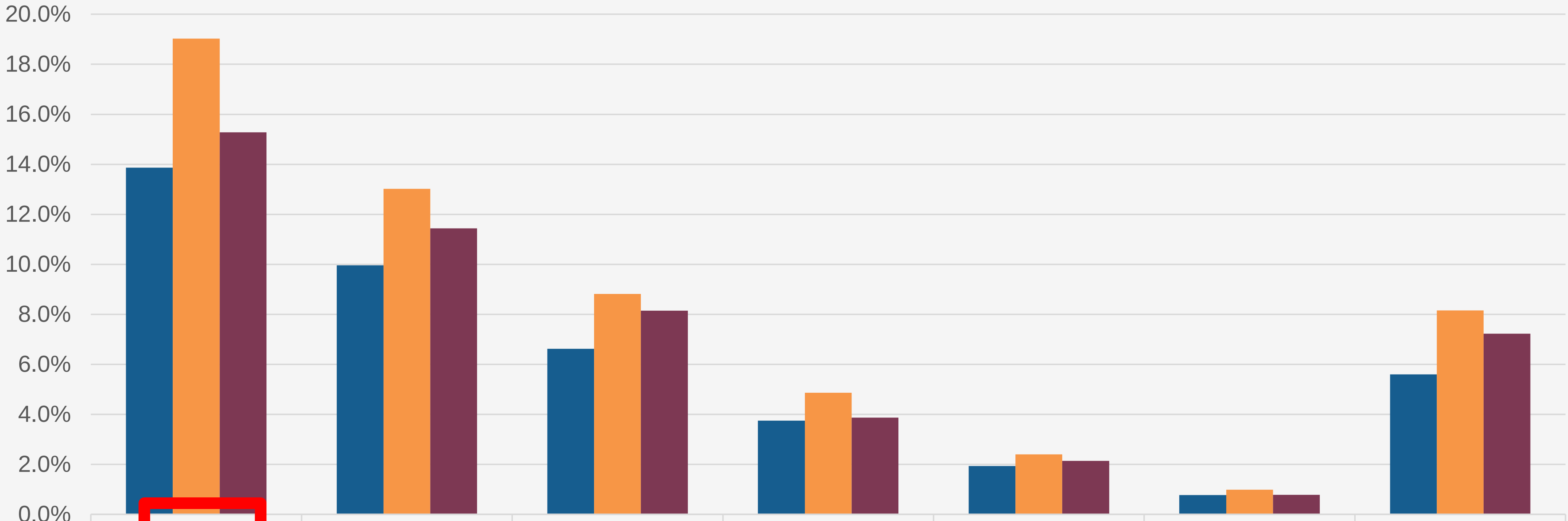

	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	13.9%	10.0%	6.6%	3.7%	1.9%	0.8%	5.6%
less than 100 employees	19.0%	13.0%	8.8%	4.9%	2.4%	1.0%	8.2%
100-500 employees	15.3%	11.4%	8.1%	3.9%	2.1%	0.8%	7.2%

NB: Retirement Savings Surplus is defined as the present value of surpluses in retirement valued at age 65 in 2019 dollars

Percentage increase in Retirement Saving Surpluses as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 66% take up rate
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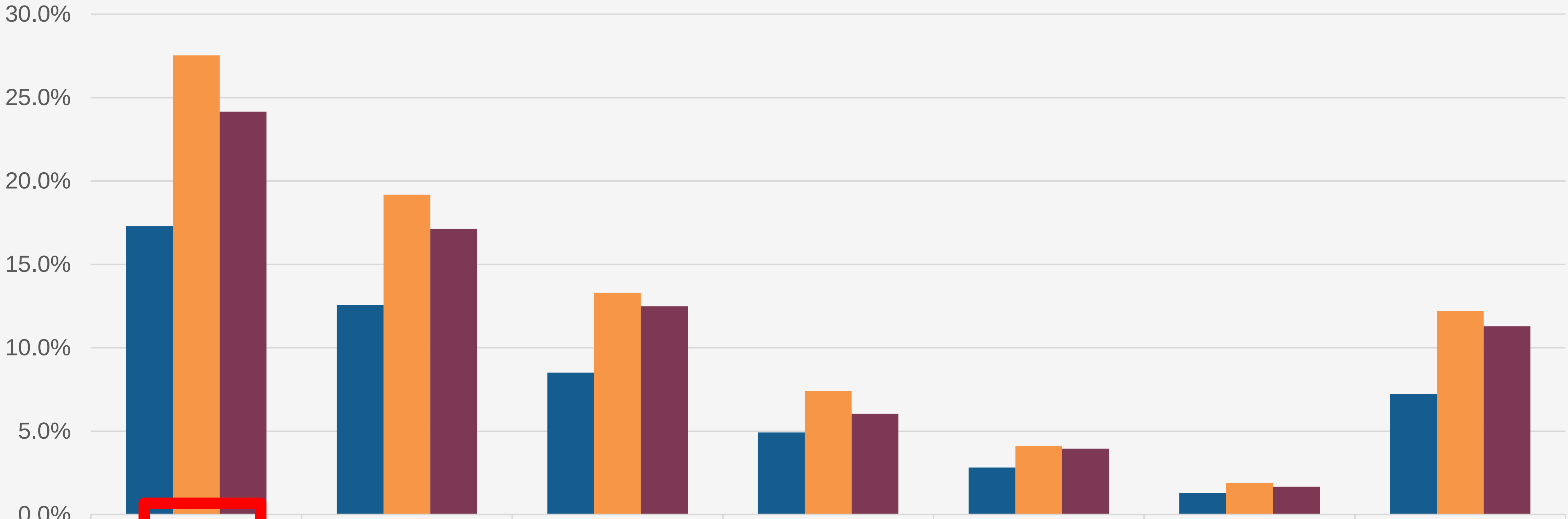

	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	17.3%	12.6%	8.5%	4.9%	2.8%	1.3%	7.2%
less than 100 employees	27.5%	19.2%	13.3%	7.4%	4.1%	1.9%	12.2%
100-500 employees	24.2%	17.1%	12.5%	6.0%	3.9%	1.7%	11.3%

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NB: Retirement Savings Surplus is defined as the present value of surpluses in retirement valued at age 65 in 2019 dollars

Percentage increase in Retirement Saving Surpluses as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 7.3% take up rate

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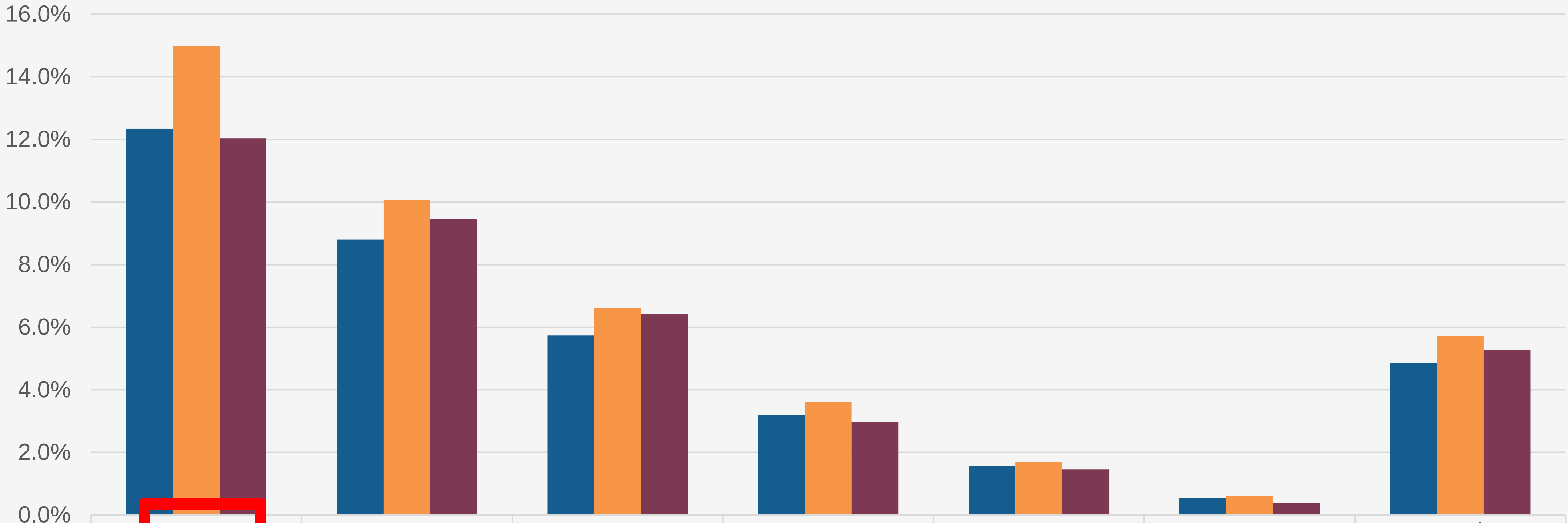

	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	12.3%	8.8%	5.7%	3.2%	1.6%	0.5%	4.9%
less than 100 employees	15.0%	10.1%	6.6%	3.6%	1.7%	0.6%	5.7%
100-500 employees	12.0%	9.5%	6.4%	3.0%	1.5%	0.4%	5.3%

NB: Retirement Savings Surplus is defined as the present value of surpluses in retirement valued at age 65 in 2019 dollars

FUTURE WORK

Possible additional runs

- If you have suggestions for additional runs please email me at vanderhei@ebri.org
- Change in assumptions
  - Open MEP utilization
  - ROR assumptions
- AUM model
- In-plan annuitization
- Future legislation?
  - NB: the simulations for a version of ARPA with the flexibility to include auto-IRAs has already been published by EBRI
    - VanDerhei, Jack (July 2019). "Under the Dome — A Closer Look at Legislative Proposals Impacting Retirement," EBRI Issue Brief.

APPENDIX: IMPACT ON RETIREMENT SAVINGS
NET SURPLUSES

Percentage increase in Retirement Savings Net Surplus as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

ASSUMES 25% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

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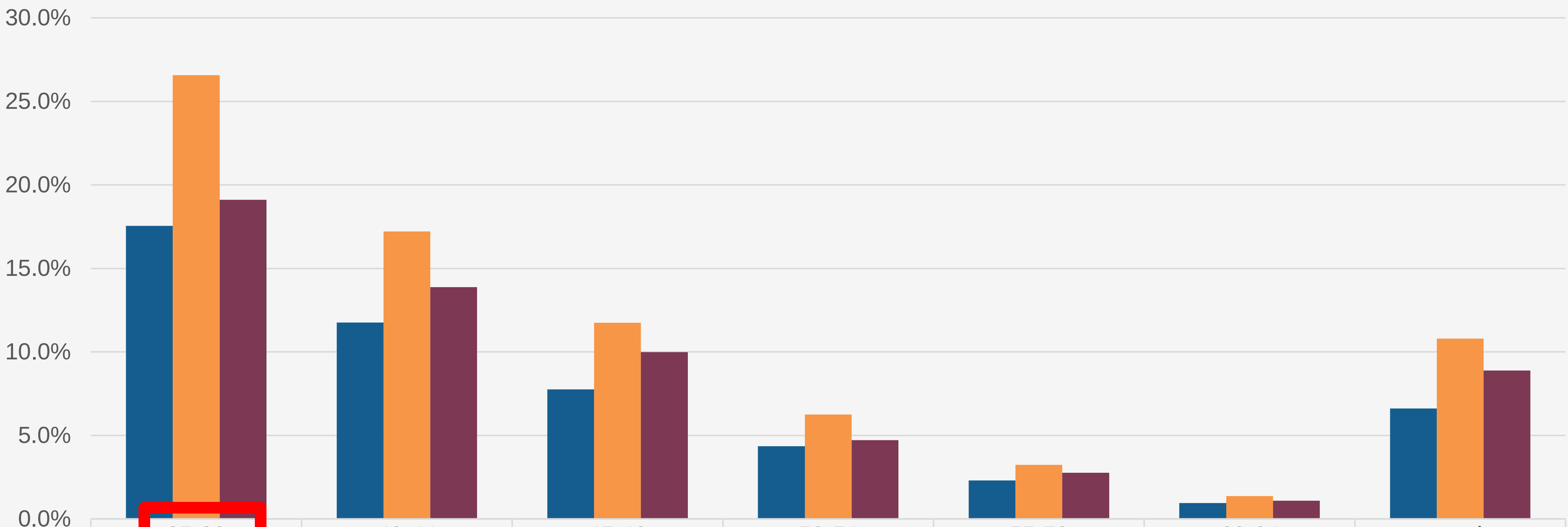

	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	17.5%	11.8%	7.8%	4.4%	2.3%	0.9%	6.6%
less than 100 employees	26.6%	17.2%	11.8%	6.2%	3.2%	1.4%	10.8%
100-500 employees	19.1%	13.9%	10.0%	4.7%	2.8%	1.1%	8.9%

NB: Retirement Savings Net Surplus is defined as the present value of surpluses in retirement minus the present value of deficits in retirement valued at age 65 in 2019 dollars

Percentage increase in Retirement Savings Net Surplus as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

ASSUMES 10% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

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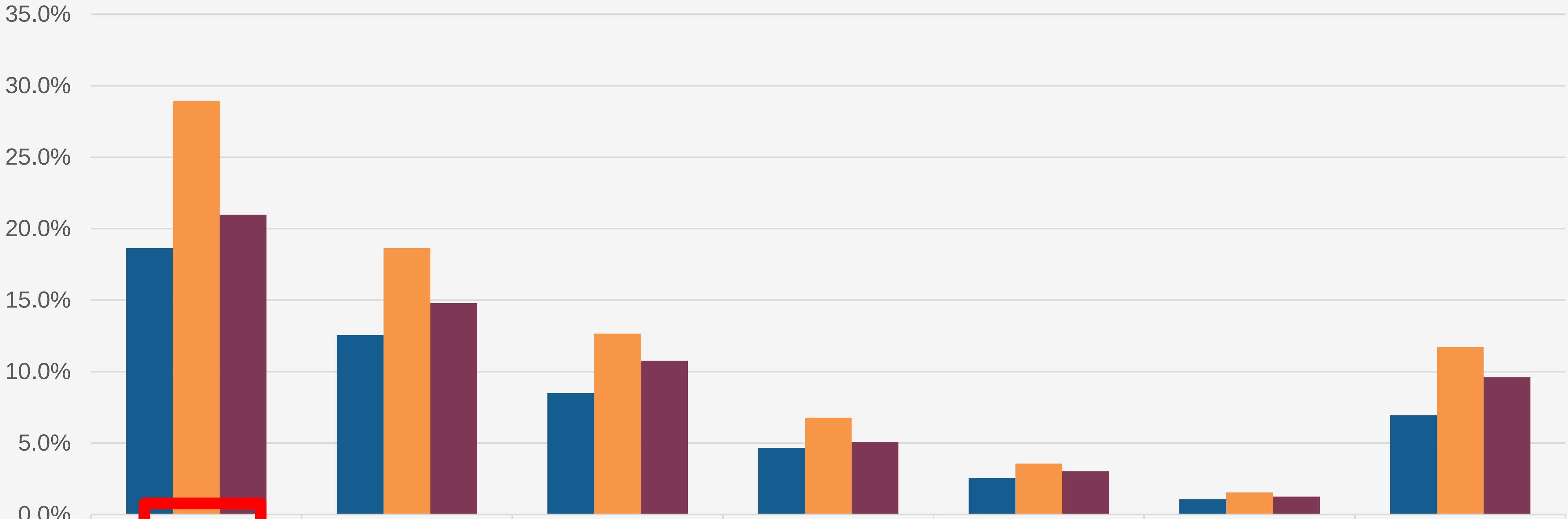

	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	18.6%	12.6%	8.5%	4.7%	2.6%	1.1%	6.9%
less than 100 employees	28.9%	18.6%	12.7%	6.8%	3.6%	1.5%	11.7%
100-500 employees	21.0%	14.8%	10.8%	5.1%	3.0%	1.2%	9.6%

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Percentage increase in Retirement Savings Net Surplus as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

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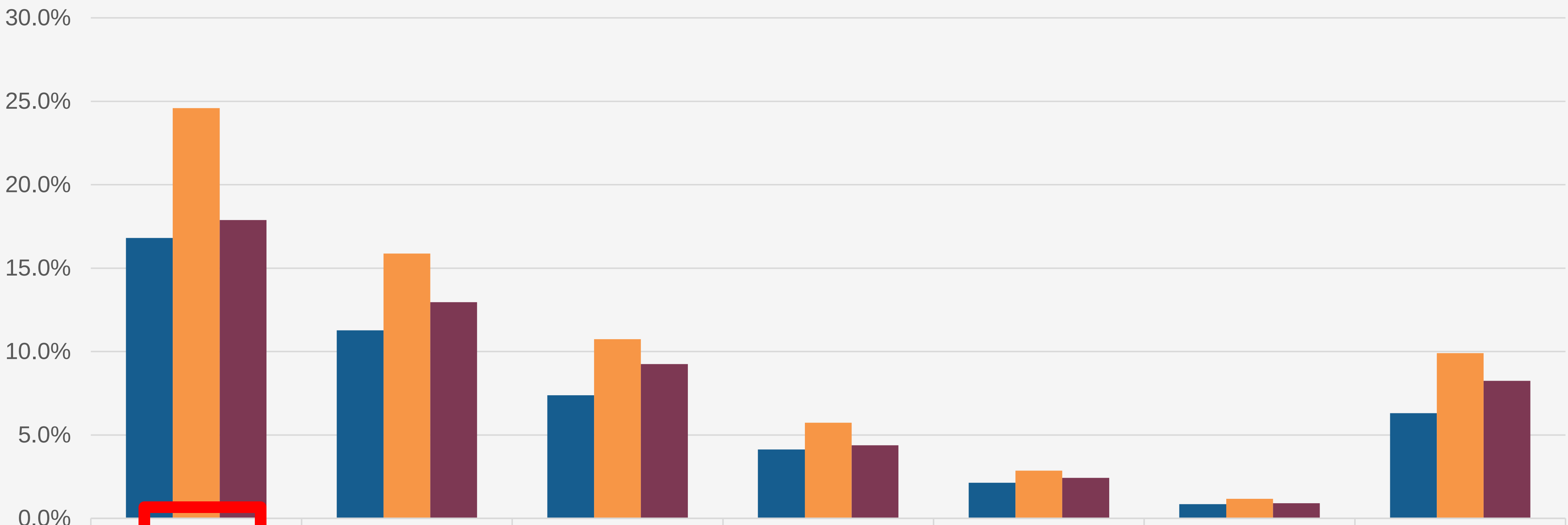

	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	16.8%	11.3%	7.4%	4.1%	2.1%	0.9%	6.3%
less than 100 employees	24.6%	15.9%	10.7%	5.7%	2.9%	1.2%	9.9%
100-500 employees	17.9%	13.0%	9.3%	4.4%	2.4%	0.9%	8.2%

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Percentage increase in Retirement Savings Net Surplus as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 66% take up rate

ASSUMES 25% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

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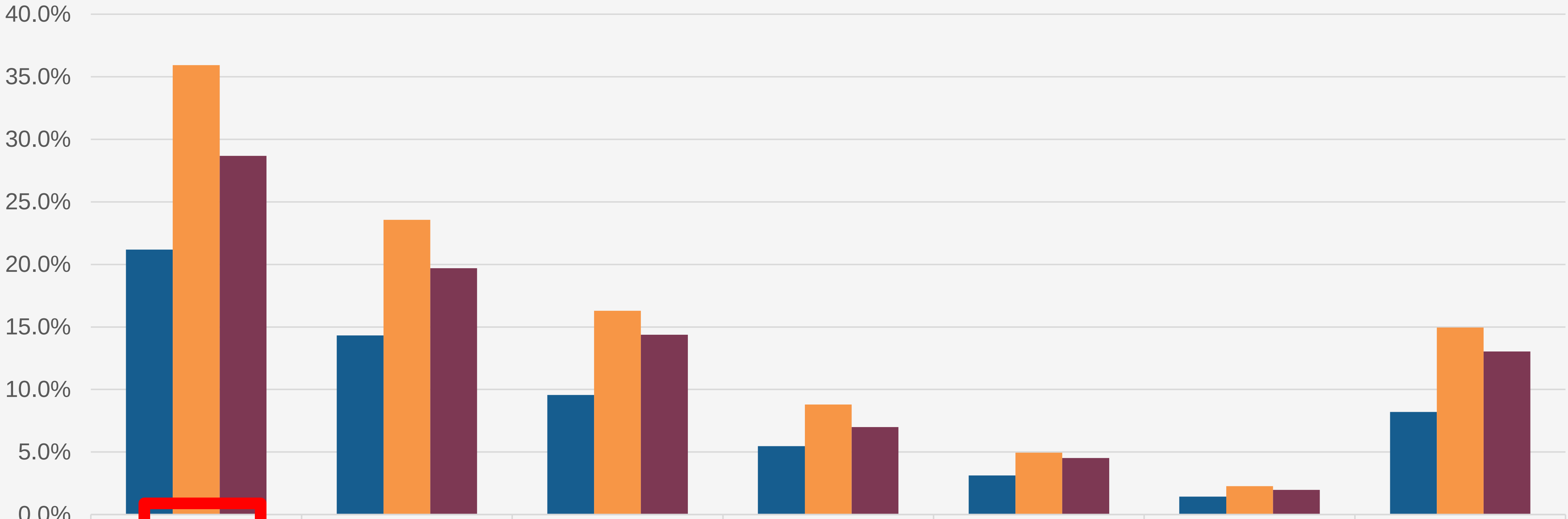


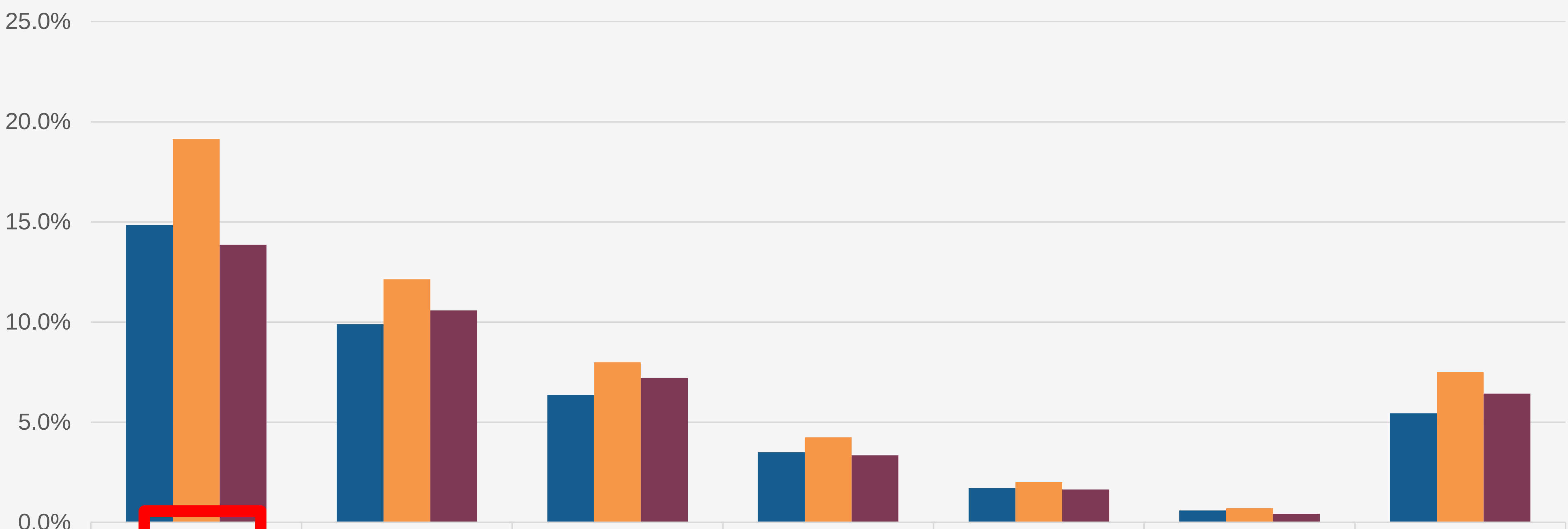
	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	21.2%	14.3%	9.6%	5.5%	3.1%	1.4%	8.2%
less than 100 employees	35.9%	23.6%	16.3%	8.8%	4.9%	2.3%	14.9%
100-500 employees	28.7%	19.7%	14.4%	7.0%	4.5%	2.0%	13.0%

NB: Retirement Savings Net Surplus is defined as the present value of surpluses in retirement minus the present value of deficits in retirement valued at age 65 in 2019 dollars

Percentage increase in Retirement Savings Net Surplus as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor and (c) required coverage of long-term part-time employees by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 7.3% take up rate

ASSUMES 25% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

SOURCE: EBRI RSPM VERSION 3437



	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	14.8%	9.9%	6.4%	3.5%	1.7%	0.6%	5.4%
less than 100 employees	19.1%	12.1%	8.0%	4.2%	2.0%	0.7%	7.5%
100-500 employees	13.9%	10.6%	7.2%	3.4%	1.6%	0.4%	6.4%

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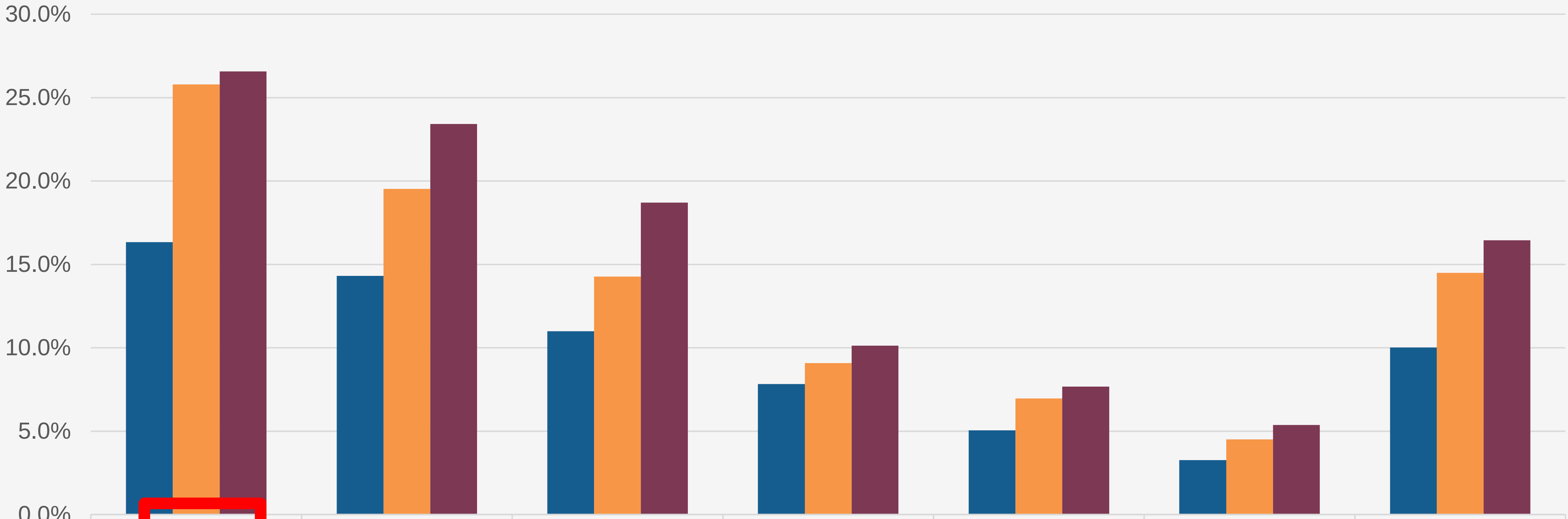
NB: Retirement Savings Net Surplus is defined as the present value of surpluses in retirement minus the present value of deficits in retirement valued at age 65 in 2019 dollars

APPENDIX: IMPACT OF ADDING AUTO PORTABILITY

Percentage decrease in Retirement Saving Shortfalls as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor, (c) required coverage of long-term part-time employees and (d) complete auto portability by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

ASSUMES 25% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

SOURCE: EBRI RSPM VERSION 3437



	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	16.3%	14.3%	11.0%	7.8%	5.0%	3.3%	10.0%
less than 100 employees	25.8%	19.5%	14.3%	9.1%	7.0%	4.5%	14.5%
100-500 employees	26.6%	23.4%	18.7%	10.1%	7.7%	5.4%	16.4%

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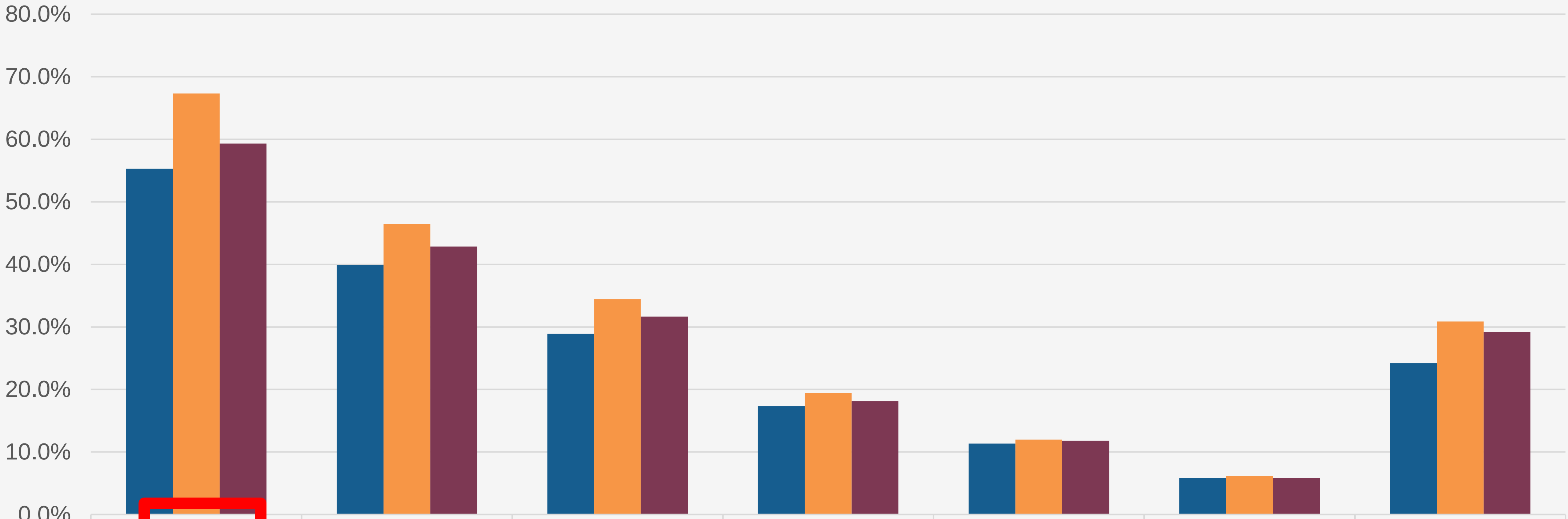
NB: Retirement Savings Shortfall is defined as the present value of deficits in retirement valued at age 65 in 2019 dollars

Percentage increase in Retirement Saving Surpluses as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor, (c) required coverage of long-term part-time employees and (d) auto portability by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

ASSUMES 25% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

SOURCE: EBRI RSPM VERSION 3437



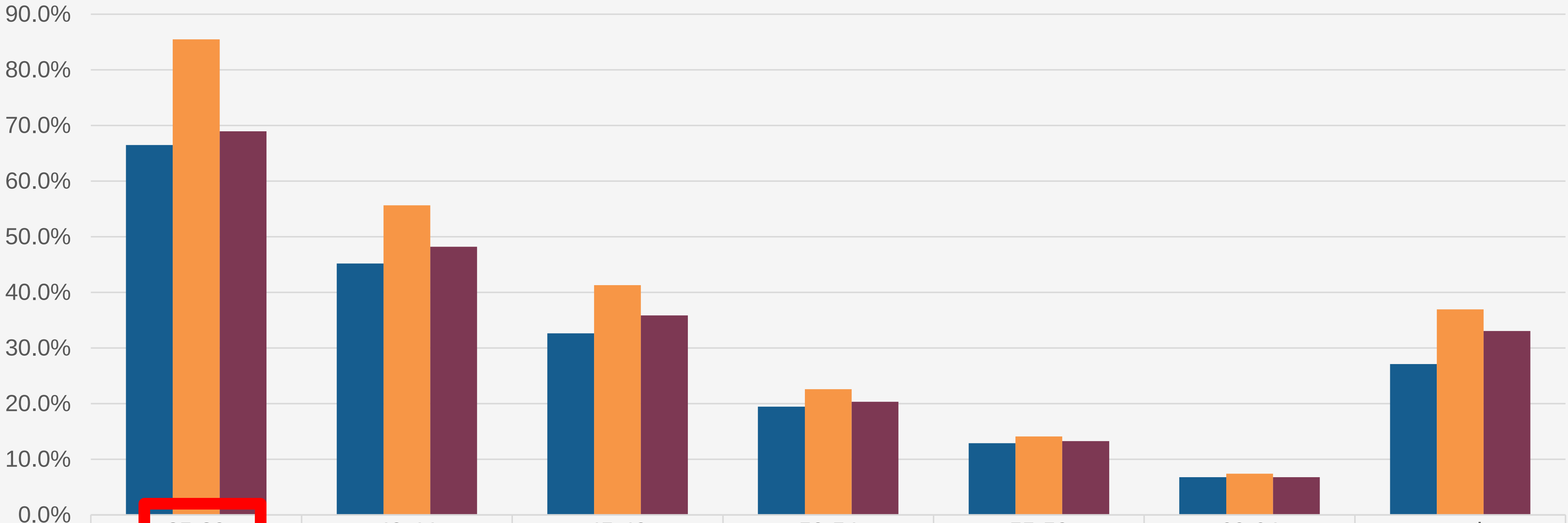
	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	55.3%	39.9%	28.9%	17.3%	11.4%	5.9%	24.2%
less than 100 employees	67.3%	46.5%	34.4%	19.4%	12.0%	6.2%	30.9%
100-500 employees	59.3%	42.9%	31.7%	18.1%	11.8%	5.8%	29.2%

NB: Retirement Savings Surplus is defined as the present value of surpluses in retirement valued at age 65 in 2019 dollars

Percentage increase in Retirement Savings Net Surplus as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor (c) required coverage of long-term part-time employees and (d) auto portability by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate

ASSUMES 25% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS

SOURCE: EBRI RSPM VERSION 3437

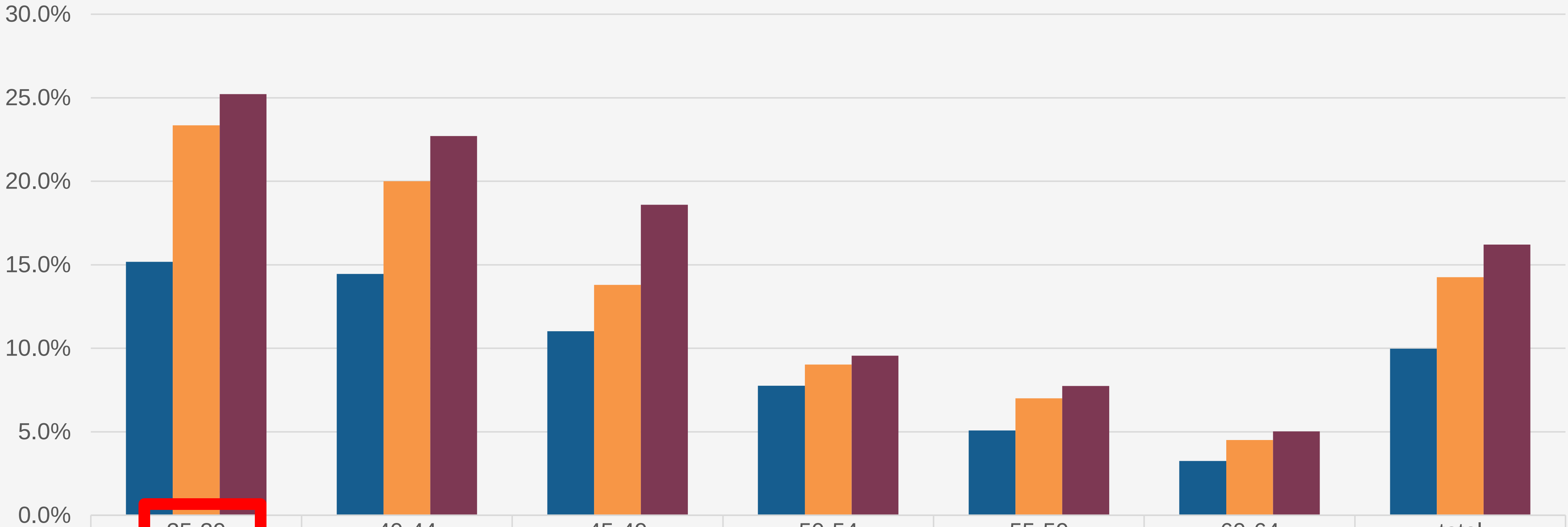


	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	66.5%	45.2%	32.7%	19.5%	12.9%	6.8%	27.1%
less than 100 employees	85.5%	55.7%	41.3%	22.6%	14.1%	7.4%	36.9%
100-500 employees	69.0%	48.2%	35.9%	20.3%	13.3%	6.8%	33.1%

NB: Retirement Savings Net Surplus is defined as the present value of surpluses in retirement minus the present value of deficits in retirement valued at age 65 in 2019 dollars

APPENDIX: IMPACT OF SOCIAL SECURITY REDUCTIONS

Percentage decrease in Retirement Saving Shortfalls as a result of (a) open MEPs, (b) increasing the cap on the automatic escalation of contributions in 401(k) testing safe harbor, (c) required coverage of long-term part-time employees and (d) complete auto portability by age and size of employer (assumes 100 percent auto-correlation wrt plan size) based on 30-31% take up rate ASSUMES 25% PCT OPT-OUT FOR EMPLOYEES IN OPEN MEPS AND 24% REDUCTION IN SOCIAL SECURITY STARTING IN 2034 SOURCE: EBRI RSPM VERSION 3437



	35-39	40-44	45-49	50-54	55-59	60-64	total
overall	15.2%	14.5%	11.0%	7.8%	5.1%	3.3%	10.0%
less than 100 employees	23.4%	20.0%	13.8%	9.0%	7.0%	4.5%	14.3%
100-500 employees	25.2%	22.7%	18.6%	9.6%	7.7%	5.0%	16.2%

NB: Retirement Savings Shortfall is defined as the present value of deficits in retirement valued at age 65 in 2019 dollars

APPENDIX: ADDITIONAL INFORMATION ON 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.

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