Staying married and avoiding nursing homes can trim your retirement shortfall risk: EBRI

By Editorial Staff *Thu, Feb 19, 2015*

Being part of a couple, receiving Social Security benefits, not needing long-term care, and having participated in a workplace savings plan are all associated with a reduced risk of running out of money in retirement.

America's overall retirement savings gap is $4.13 trillion for all households headed by those between ages 25 and 64, but the gap per household varies widely depending on factors like gender and marital status, according to the Employee Benefit Research Institute (EBRI).

If Social Security benefits are cut in the future, the aggregate gap will widen. "With the program's trust fund projected to be exhausted by 2033, the retirement deficit will increase to $4.38 trillion at that time if no additional funding is provided" and Social Security benefits are reduced, EBRI said in a release.

If Social Security were to suddenly disappear this year, the aggregate national retirement deficit would increase by almost 90%, to $7.87 trillion, the research group found. EBRI's new analysis is based on results from its proprietary Retirement Savings Projection Model (RSPM), and estimates the size of the deficits that households are simulated to generate in retirement, or Retirement Savings Shortfalls (RSS).

Among the study's findings:

Nursing home expenses create shortfalls. People who live the longest are most likely to need nursing home care; they face retirement shortfalls that are 14.8 times larger on average than those with the shortest lifetimes, EBRI estimates. If projected nursing home and home health care costs are excluded, America's aggregate RSS would drop by 74%.

Married couples are safest from shortfalls. For those on the verge of retirement (Early Baby Boomers), retirement savings shortfalls vary from $19,304 (per individual) for married households, increasing to $33,778 for single males and $62,734 for single females.

Shortfalls are concentrated in half of households. Less than half of the simulated "lifepaths" modeled by EBRI are considered to be "at risk." In those situations, the average expected shortfalls for the oldest Boomers are $71,299 (per individual) for married households, $93,576 for single males and $104,821 for single females.

A lifetime of 401(k) participation will help Gen-Xers. The longer they can participate in defined contribution plans, the better off the post-Boomer generation will be in retirement, EBRI data showed. Gen-Xers who never get a chance to work for a company that offers a workplace savings plan face an average expected shortfall of $78,297. That shortfall drops to $52,113 for those with one to nine years of future eligibility, to $32,937 for those with 10–19 years, and to only $16,782 for those with 20+ years.

The full report, “Retirement Savings Shortfalls: Evidence from EBRI’s Retirement Security Projection Model,” appears in the February ***EBRI Issue Brief***.