The system is working: EBRI

By Kerry Pechter *Thu, Jan 23, 2014*

For many, the achievement of an adequate income replacement rate in retirement may require having 30 years' access to a 401(k) plan and undiminished Social Security benefits, according to the Employee Benefit Research Institute.

Assuming a smooth employment history—30 years of 401(k) savings eligibility in working life and unimpaired Social Security benefits afterwards—most (83-86%) individual workers could retire with least 60% of their final income (adjusted for inflation) according to the Employee Benefit Research Institute. (EBRI).

EBRI's computer simulations and projections showed that the higher your target replacement rate—i.e., the higher your expenses in retirement—the more likely you will be to hit the target, and vice-versa.

"When the threshold for a financially successful retirement is increased to 70% replacement of age-64 income, 73-76% of these workers will still meet that threshold, relying only on 401(k) and Social Security combined. At an 80% replacement rate, 67% of the lowest income quartile will still meet the threshold," EBRI said.

If you also assume that people are auto-enrolled in 401(k) plans and that their contributions are auto-escalated, the replacement rates go up. If Social Security benefits are curtailed after the so-called trust fund is exhausted, then replacement rates go down, the EBRI showed.

The press release seemed to suggest that if all three traditional legs of the retirement "stool" are in place—diligent saving in a workplace plan, a reinforced Social Security program, and a fair amount of personal savings—then a typical worker could maintain his or her standard of living even after earned income stops.

The release didn't say if the individual data could be extrapolated to arrive at the expected income for retired working couples, or if working couples might need to replace a different percentage of their pre-retirement household income than single people.

EBRI first calculated the accumulated retirement-adequacy deficits by age, family status, and gender for Baby Boomers and Gen Xers in 2010. The aggregate deficit number, assuming current Social Security retirement benefits, was estimated to be $4.6 trillion, with an individual average of approximately $48,000.

If Social Security benefits were to be eliminated, the aggregate deficit would jump to $8.5 trillion and the average would increase to approximately $89,000. Those numbers are present values at retirement age, and represent the additional amount each member in that group would need at age 65 to eliminate his or her expected deficits in retirement, on average.

The study also noted that the presence of a defined benefit accrual at age 65 increases the probability of not running short of money in retirement by 11.6 percentage points, and is particularly valuable for the lowest-income quartile as well as the middle class.

The full report, “The Role of Social Security, Defined Benefits, and Private Retirement Accounts in the Face of the Retirement Crisis,” is published in the January *EBRI Notes,* online at www.ebri.org