



## WORKING LONGER TO AFFORD RETIREMENT

*Does staying in the work force longer enhance the probability of a financially more secure retirement? The answer is a qualified “yes.”*

If inadequate retirement income is the problem—as it is, or is likely to be, for a more than half of low- and middle-income Americans—is working longer the answer? This question was the focus of Jack VanDerhei and Craig Copeland’s recent research, which they presented in “The Impact of Deterring Retirement Age on Retirement Income Adequacy,” an EBRI Issue Brief published in June 2011.

## PROVIDING A CONTEXT

To put their new study in context, VanDerhei and Copeland review the Retirement Readiness Ratings and the Retirement Security Projection Model<sup>®</sup> (RSPM), which EBRI has used since 2003 to produce regular estimates of retirement income adequacy for specific groups, or cohorts, of people differentiated by age and preretirement income. In this work, “income adequacy” means having enough money to cover basic living expenses and out-of-pocket medical care throughout retirement.

Earlier findings showed that Early Boomers, born between 1947 and 1954, whose preretirement income was in the lowest quartile, or less than \$20,000, were at greatest risk of running out of money. This was true in large part because, unlike those further from retirement, these households were unlikely to be able to save enough to make up the difference.

These findings also showed that participation in a defined contribution plan was a major predictor of having adequate retirement income, and that plan participation has increased. The increase is due in part to automatic enrollment programs and automatic increases in the employee contribution rate.

## → A QUICK LOOK

- More than 50% of people approaching retirement could run out of money in their lifetimes
- Deferring retirement enhances the probability of having adequate income
- Continuing to participate in an employer retirement plan is a major plus
- Planning for unskilled nursing costs is a must

## PROJECTING A REDUCTION IN RISK

As a next step, RSPM was modified for 2011 to assess an alternative remedy for inadequate retirement income: the probability that deferring retirement past 65 would make a meaningful difference.

As a preamble to their findings, VanDerhei and Copeland acknowledge that postponing retirement may not always be feasible. A person’s health or the health of a spouse could preclude continuing to work. Or there may be no suitable jobs. As supporting evidence, they pointed out that the Retirement Confidence Survey shows that over time many workers have reported retiring earlier than they had planned, including 45% of retired respondents in 2011.

Further, in the absence of empirical evidence on the experiences of elderly workers, the authors made certain assumptions about what those experiences would be, including staying at the same job after 64, postponing Social Security benefits until age 70, continuing to participate in a defined contribution retirement savings plan that included an employer match, and not requiring nursing home or at-home health care.

The findings were encouraging. VanDerhei and Copeland projected that while less than 30% of the group most “at risk” would have adequate income if they retired at 65, nearly half (47%) would be in a substantially better position by deferring retirement to at least age 69. That percentage increased slightly to 49% by deferring retirement until 75 and jumped to 90% when retirement was postponed to 84. The cautionary note, however, was that even working longer does not guarantee adequate income for all the possible things that could happen in retirement.

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The authors also noted a reduction in the risk of running out of money for other income groups when retirement age was deferred to 69, 75, and 84. But they pointed out that, as preretirement income increased, the percentages of those “at risk” declined, even when people retired at the conventional age of 65. For example, households in the top income cohort, with preretirement income of more than \$40,000, already had an 89% likelihood of having adequate income for their lifetimes.

## DRAWING CONCLUSIONS

In analyzing the impact of continued participation in a defined contribution plan, VanDergei and Copeland projected a major positive difference across the board. The actual percentage of those who would move from the “inadequate” to the “adequate” income category varied among different economic groups, but was always a minimum of 10 percentage point gain. When they estimated the relative increase in the percentage of households that could anticipate adequate income by deferring retirement the results were a striking 44% for those in the lowest income quartile who deferred retirement until age 84.

VanDergei and Copeland likewise confirmed their earlier conclusion that the full scope of possible nursing home and at-home health care costs must be included when evaluating the adequacy of retirement income. Otherwise the true value of deferring retirement beyond 65 is “substantially muted.” They point out that the more assurance people want that their retirements will be successful, the more essential it is to plan for health care expenses.

Their initial estimate of the value of deferring retirement is optimistic, the authors say. So they caution that their findings should be understood as a “best-case estimate” of the impact of this deferral.

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*Jack VanDerhei and Craig Copeland, “The Impact of Deferring Retirement Age on Retirement Income Adequacy,” EBRI Issue Brief, no.358, June 2011. The article includes a detailed Appendix, Endnotes, and References.*