

State-specific income adequacy studies

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Retirement “adequacy”

- Two types of analysis:
 1. Comparison of first-year retirement income vs. three different ad-hoc expenditure thresholds → Oregon, Kansas and Massachusetts
 2. Year-by-year comparison of simulated retirement expenditures vs. retirement income (for defined benefit plans and Social Security) and account balances that may be spent as desired (defined contribution and cash balance plans and IRAs) → Kansas and Massachusetts
- Will only focus on the second today
 - Due to time constraints, only results from Massachusetts will be shown
 - Similar for Kansas, although average deficits are approximately 50 – 75 percent as high
 - The entire Kansas study is (and the Massachusetts study soon will be) available at www.ebri.org

Retirement Expense Assumptions: simulated expenditure analysis

- decomposed total expenditures for retirees into:
 - those that are deterministic (food, housing and some health expenditures) and
 - those that are stochastic (home health care and nursing home care)
- performed annual simulations on the state's households to determine if each retiree would:
 - require home health care,
 - enter a nursing home,
 - die, or
 - continue to survive without incurring any of these health costs.

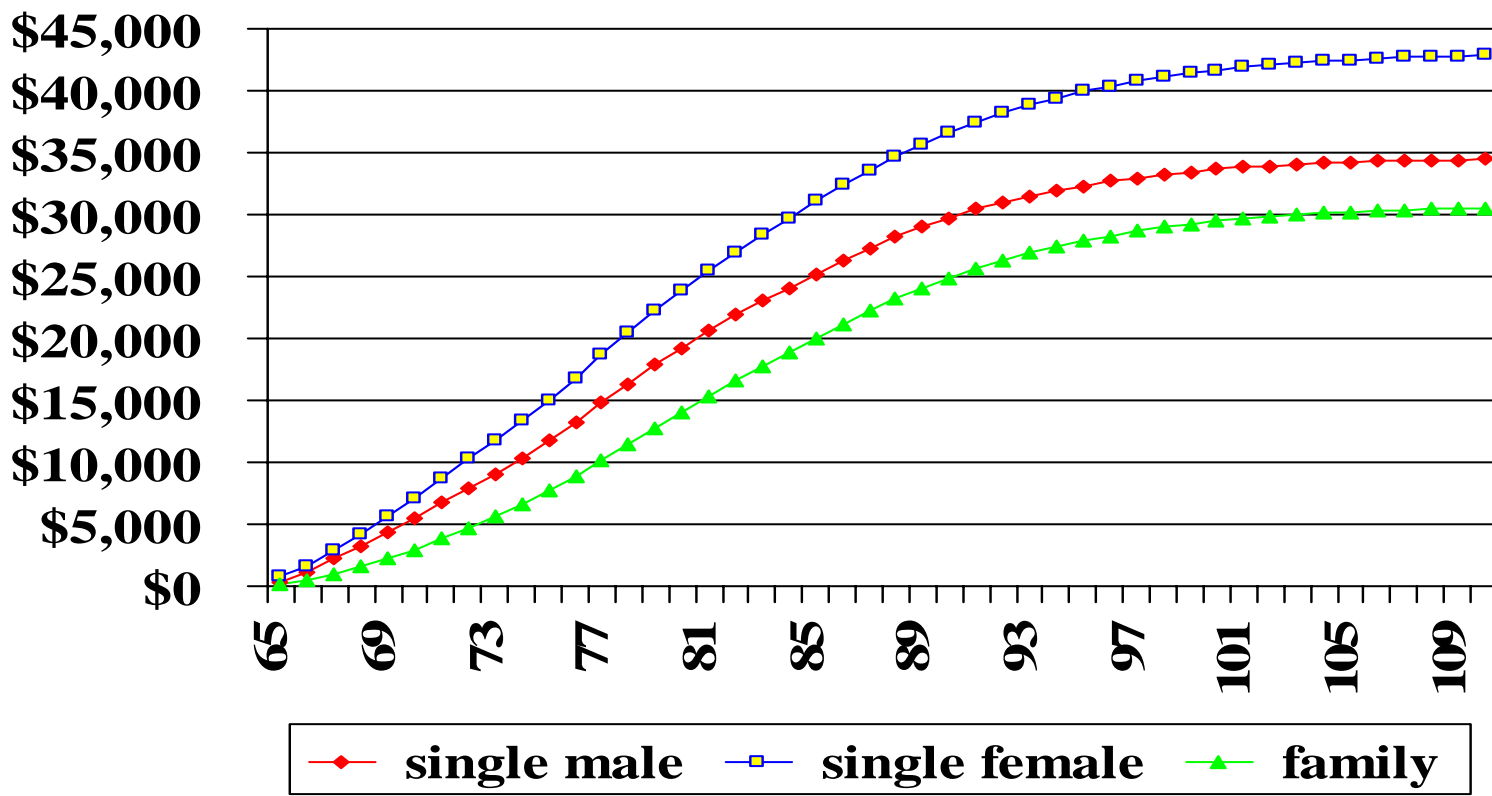
Model output for simulated expenditure analysis

- modeled the Medicaid reimbursements for the state
- computed the annual differential, if any, between the total expenses (net of Medicaid reimbursement) and the retirement income.
- If total net expenses are simulated to exceed the total retirement income for a year
 - the households are assumed to spend down their individual account balances until the point at which they are exhausted.
- The present value of the annual deficits are then accumulated with age for each birth cohort and gender/family combination and the results are presented

Housing equity assumptions

- Three different scenarios were modeled
 - Housing equity never liquidated
 - Housing equity annuitized at retirement
 - Housing equity is not liquidated until “needed” and then the residual value is not annuitized

Chart 26: Age-specific average present value of accumulated deficits expressed in 2002 dollars (net of Medicaid payments) assuming current Social Security and housing equity is never liquidated by gender and family status at retirement age: birth cohort 1936-1940



Summary of Charts 26-31: Ultimate present value of accumulated deficits expressed in 2002 dollars (net of Medicaid payments) assuming current Social Security and housing equity is never liquidated by gender and family status at retirement age

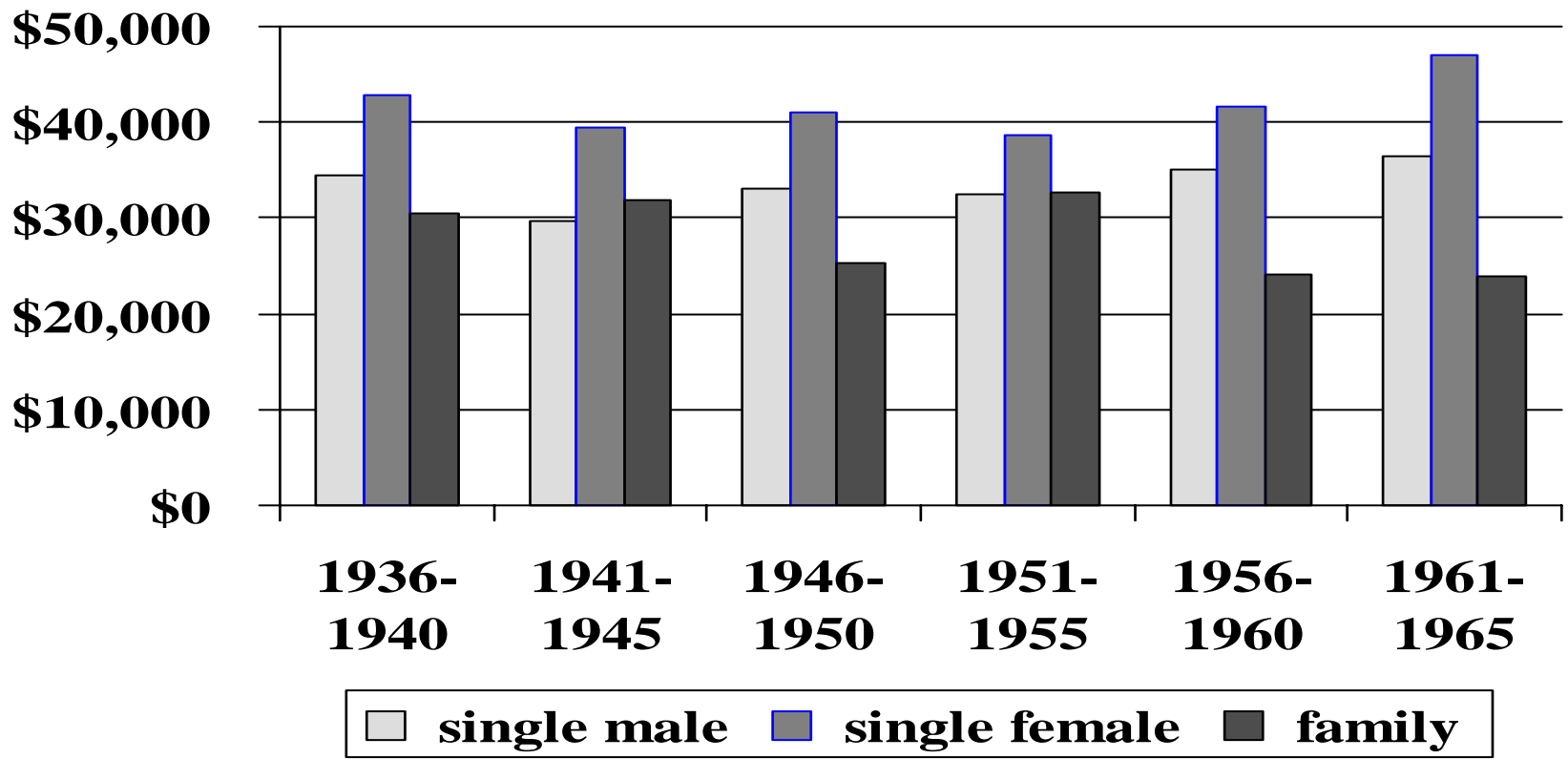
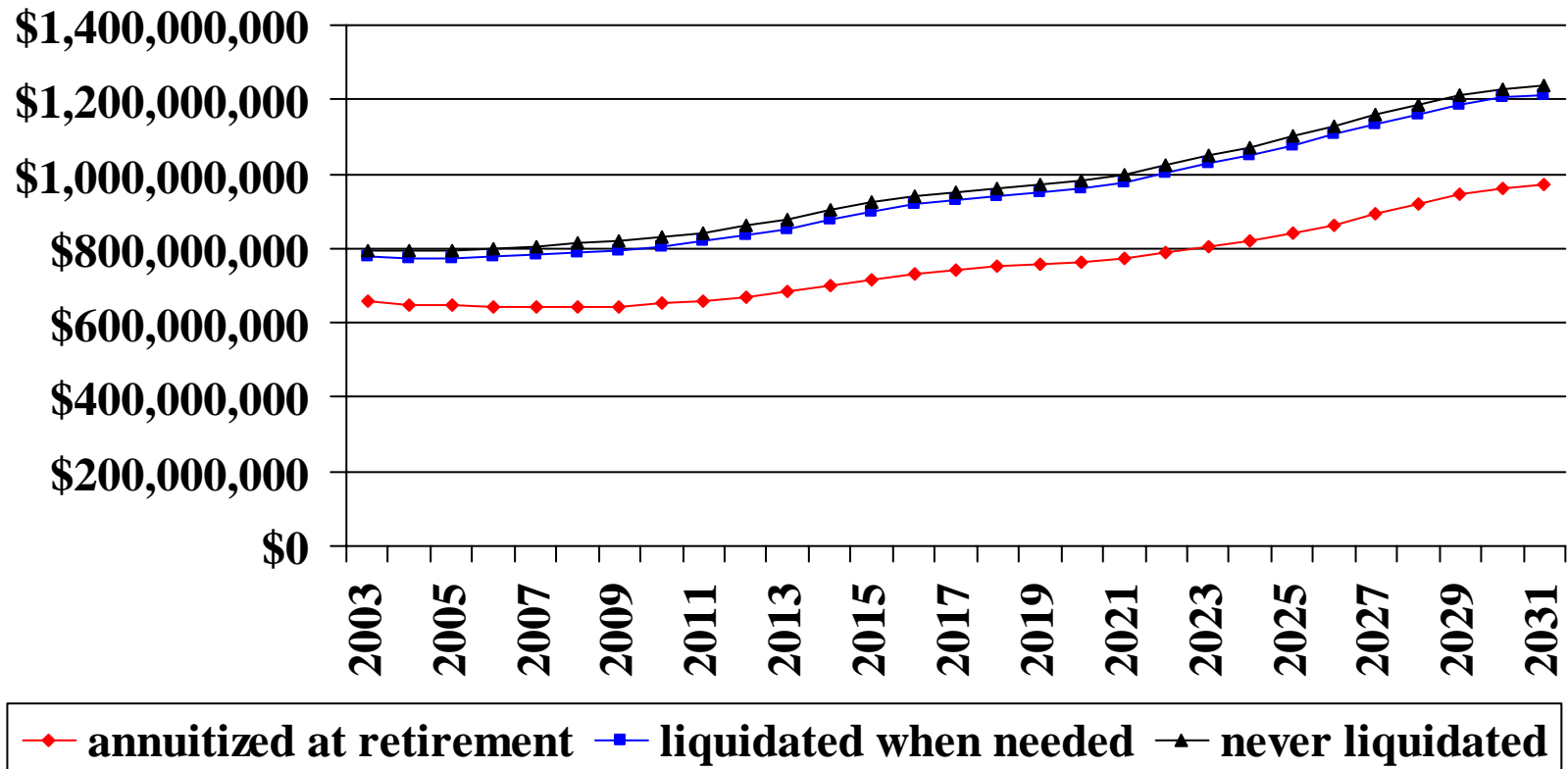


Chart 80: Simulated nominal annual deficits for Massachusetts residents age 65 and over after Medicaid reimbursements by housing equity scenario*



* assuming status quo for Social Security benefits and that current retirees are similar to the oldest cohort of current workers

Deficit by incremental addition to defined contribution balance at retirement age in 2002 dollars, assuming housing equity is never liquidated: single females, birth cohort 1961-1965



Source: Employee Benefit Research Institute, Massachusetts Future Retirement Income Assessment Project.