

EBRI: Delaying retirement won't guarantee affordability



June 10, 2011
By Heather Trese

Tags
Employee Benefit Research Institute, strategies, retirement

Discuss
0 Comments

Share

 Tweet 3

   

For many pre-retirees who are short of their retirement goals, delaying retirement by a few years is the first solution they choose to building up their retirement income. But a new study by the [Employee Benefit Research Institute \(EBRI\)](#) finds that may not be as helpful as pre-retirees think.

According to the study, if boomers and Gen Xers [delay their retirement](#) past the age of 65, many of them still would not have adequate income to cover their basic retirement expenses and uninsured health care costs. In fact, even if a worker delays his or her retirement into their 80s, there is still a chance the household will be “at risk” of running out of money in retirement.

However, the chance of success for retirement adequacy improves significantly as individuals reach their late 70s and early 80s. A major factor that makes a difference in a person’s ability to meet their basic expenses and uninsured health care costs in retirement is the whether they are still participating in a defined-contribution retirement plan (such as a 401(k)) after the age of 65. Though percentage increases vary by several factors, defined contribution participation after 65 makes at least a 10 percentage point difference in the majority of the retirement age/income combinations.

Since income before retirement is crucial to an individual’s ability to be able to afford a comfortable retirement, the EBRI research looks at how working past age 65 affects different pre-retirement income groups:

- **Lowest preretirement income quartile:** For those in the lowest income group, only 29.6 percent of these households would have sufficient resources to avoid running short of money in retirement 50 percent of the time; however, this increases to 34.6 percent if retirement is deferred until age 67 and 46.5 percent if retirement is deferred until age 69. The incremental increase in the percentage of households in the lowest preretirement income quartile having at least a 50 percent probability of success levels off for several years (in large part due to the elimination of the delayed retirement credits under Social Security) but then picks up again after age 75. Approximately one-half (49.1 percent) of the lowest preretirement income quartile households retiring at age 75 would have at least a 50 percent probability of success, but that increases to 61.7 percent at age 80, and 90.2 percent at age 84.
- **Second preretirement income quartile:** For this group, less than a quarter (23.5 percent) of households would have a 70 percent probability of adequate income if they retired at age 65. This increases to 36.5 percent if they keep working to age 69.
- **Third preretirement income quartile:** For those households in the next-to-highest income group, almost half (49.1 percent) would have a 70 percent probability of adequate income if they retired at age 65. This increases to 60.5 percent if they keep working to age 69.
- **Highest preretirement income quartile:** Three-quarters (75.9 percent) of households in the highest preretirement income quartile are likely to have adequate income for retirement if they retired at age 65. This increases to 81.1 percent if they keep working to age 69.