

Department of Labor

Retirement Adequacy with an Emphasis on the Baby Boom Generation

RAND has taken an integrated approach to studying retirement adequacy with an emphasis on the Baby Boom generation. They have incorporated trends in health care costs, health, pension offerings and retirement behavior to provide a multi-dimensional look at retirement decisions.

Lead Agency:

Employee benefits Security Administration (Department of Labor)

Agency Mission:

The Employee Benefits Security Administration (EBSA) of the Department of Labor (DOL) administers and enforces Title I and certain other provisions of the Employee Retirement Income and Security Act of 1974 (ERISA). ERISA section 513(a) authorizes the Secretary to “undertake research...and in connection therewith to collect, compile, analyze, and publish data, information, and statistics relating to employee benefit plans, including retirement, deferred compensation, and welfare plans, and [other]... plans not subject to this Act.”

Principal Investigator:

Dr. Jeff Dominitz (Senior Economist, RAND)
1200 South Hayes Street
Arlington, VA 22202

Partner Agencies or Organizations:

None

General Description:

The rise in health care costs, shift from traditional defined benefit pension plans and erosion of retiree health plans has made it increasingly important for individuals to incorporate expected medical costs into their retirement planning. However, detailed health information, including expected health outcomes given medical expenditures as well as disease and mortality prevalence, has been absent from household financial data, hindering the ability of researchers to forecast the economic well being of future retirees. Absent this information, measures of retirement adequacy are incomplete and may lead to a false sense of security.

RAND, with support from the Employee Benefits Security Administration (EBSA), has attempted to rectify this by taking a more integrated approach in their research, including projected health care costs into retirement planning, and by considering the many factors which go into the decision to retire. As a result, RAND has produced research for EBSA on such diverse topics as: alternative measures of replacement rates; offers of retiree health insurance; international comparisons of individual's responses to government policies; timing of retirement; and labor force transitions of older workers.

In addition to their current research, RAND is expanding the Future Elderly Model (FEM), a dynamic health model, to include economic measures such as financial wealth, pension claiming and labor force participation. RAND intends to use the expanded model to perform various policy experiments, including projecting the solvency of the Social Security Trust Fund and the economic well-being of future cohorts, while controlling for expected health costs.

Excellence: What makes this project exceptional?

Significance: How is this research relevant to older persons, populations and/or an aging society?

Effectiveness: What is the impact and/or application of this research to older persons?

Innovativeness: Why is this research exciting or newsworthy?

The RAND research project sponsored by EBSA employs several researchers with diverse backgrounds to examine issues facing an aging society. Typically, researchers focus on a single research topic and hold all other factors constant. RAND, however, takes a more unified approach, acknowledging that there are many issues which influence the choices made by aging individuals. For example, in modeling retirement decisions, RAND incorporates how health care coverage of a younger spouse may affect timing of retirement. In developing both income and consumption based replacement rates for retirement income, RAND includes potential health care costs in their calculations and presents the replacement rates in terms of the likelihood of having sufficient retirement income. To investigate institutional determinants of labor-force participation (with a focus on older workers), RAND looks at data from 12 other countries and develops standardized measures in order to compare how individuals respond to changes in retirement and health insurance policies. In its research, RAND take a complete look at the issues facing an aging workforce and it is this holistic approach that makes its research exceptional.

The EBSA-sponsored research by RAND has focused on the effects of health insurance and pensions on labor-force transitions for older workers. Health and financial security are two of the most important issues facing older persons and RAND's research sheds light on how older persons make decisions that impact these issues.

By looking at what influences how and when older workers retire as well as responses to various government policies, RAND's research provides policy-makers with insights into these difficult decisions. These new insights may in turn shape future legislation and regulations which target older persons.

RAND's research is exciting because it combines different data sources as well as researchers of different disciplines to achieve a fuller picture of the issues facing older workers. RAND's research considers the many components of retirement and sheds light on how they interact with each other.