Opening Remarks by Mathew Greenwald
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<u>2009 Retirement Confidence Survey</u>
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Thank you, Jack, and good morning.

The Retirement Confidence Survey, or RCS, has been tracking the attitudes and behaviors of American workers and retirees annually since 1991. That means we've seen how Americans have reacted to good times, such as the later 1990s and the middle of this decade, and how they have reacted to very bad times, such as the recent economic downturn and fear that followed 9/11. But the recession we are now experiencing has presented a new and especially difficult set of challenges to Americans' financial preparation for retirement as well as financial security for those no longer earning money through work. But for those of us who seek to educate people about how to better prepare for retirement, it also offers opportunities: opportunities that are difficult to achieve, for reasons I will go into, but opportunities just the same.

First, let me address the challenges. Jack has already covered the decline in confidence. I'd like to add just a few details to that. The decline in confidence over the past year has occurred disproportionately among older workers, among those who have saved between $25,000 and $149,999, and among those who have done a retirement savings calculation. It's also interesting to look at what happened to people with household incomes of $100,000 or more. They were—and still are—among the most confident about their retirement prospects. Yet between 2008 and 2009 the proportion of workers in that higher income bracket very confident in being able to maintain a comfortable lifestyle throughout their retirement decreased from 39% to 25%, while the percent not too or not at all confident increased from 13% to 24%.

Feelings of financial mastery and belief in equities as long-term investments have also taken a hit. In 2002, 71% of workers thought that anyone could have a comfortable retirement if they just planned and saved, but that percentage has now shrunk to 63%. And the percentage of workers thinking that stocks are a good investment over the long run has declined to 43% from 61% in 2002.

Interest in financial planning has declined as the need for it has increased. While 57% of workers reported that they enjoyed financial planning in 2002, less than half now say they enjoy this activity. And, perhaps more ominously, the proportion saying that preparing for retirement takes too much time and effort has almost doubled, from 13% in 2002 to 21% in 2009.

This last set of figures is what I was referring to when I mentioned that the opportunity to educate is difficult. When times are tough and the need for retirement planning is more pressing, it appears harder for many Americans to focus on it.

So what are workers doing in response? Well, 28% report they have altered the age at which they expect to retire, and almost all of those people are planning to postpone their retirement. They offer a variety of reasons for taking this step, but the reasons heading the list are the poor economy, making up for losses in the stock market, and wanting to make sure they have enough money. Nevertheless, the proportion of workers who expect to retire after age 65 is growing much more slowly than worker perceptions indicate. In fact, the RCS measured just a one percentage point increase over the past year in the percentage of workers planning to retire at age 66 or later, and that increase is not statistically significant. The percentage of workers saying they will never retire did, however increase slightly from 6% in 2008 to 10% in 2009.

Moreover, it must be remembered that not everyone gets to work as long as they would like. The median age of retirement reported by retirees is 62. Half of retirees say they retired before they planned to, most often because of health problems or disability, company downsizing or closure, or other factors beyond their control. In fact, only 10% of those retiring early offer only positive explanations, such as being able to afford to retire earlier or wanting to do something else.

More workers are also planning to work for pay in retirement. While the proportion of workers planning to work for pay after they retire has hovered at about two-thirds for the past five years, it shot up to 72% this year. But these expectations seem quite likely to be unrealistically high. Only one-third of retirees in the 2009 RCS reported that they actually did work for pay in retirement. Moreover, the percentage of retirees who say they worked for pay because they enjoy it has declined. In 2008, more than 90% of retirees who worked for pay in retirement indicated they did so, at least partly, because they enjoyed it or wanted to stay active and involved. This year, only about three-quarters of working retirees report that these are reasons for continuing with paid employment.

Few retirees who have not already worked for pay in retirement anticipate returning to paid employment. Just 5% say it is very likely they will work for pay some time in the future and 9% say it is somewhat likely.

Workers who have lost confidence in their ability to secure a comfortable retirement say they are responding by cutting back on their expenses and working more. But some say they are changing the way they invest their money (43 percent), saving more money (25 percent), and seeking advice from a financial professional (25 percent).

In fact, the percentage of all workers saying they and/or their spouse have saved money for retirement now stands at 75%, one of the highest levels ever measured by the RCS. Only 11% percent of workers participating in a workplace retirement savings plan state that they have decreased the percentage of their salary contributed to the plan in the past year. And of the 22 percent of workers eligible to contribute to an employment-based retirement plan but not doing so, only one in five—or 5 percent of all eligible workers—indicate that they had contributed to the plan prior to October 2008.

However, many workers continue to save without a good idea of what their ultimate savings goal should be or how much they need to save on a monthly basis to obtain a financially secure retirement. Only 44% of workers report they and/or their spouse have tried to calculate how much money they will need to have saved by the time they retire so that they can live comfortably in retirement. An equal proportion simply guess at how much they will need to accumulate.

The amounts that people think they need to save for retirement are low (usually far too low to maintain something even close to their lifestyles while working), and worker savings are correspondingly modest. Among RCS workers providing this type of information, 53% report that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000. In fact, 20% say they have less than $1,000 in savings. Just 12% indicate they have at least $250,000 in savings and investments.

Those are the challenges: declining retirement confidence, declining interest in financial planning, and increasing reliance on paid employment rather than adequate savings to ensure a comfortable retirement. So what are the opportunities?

First, the reduction in confidence should provide a better context for education. People who are confident about their retirement prospects are not likely to take steps to improve their situation because they don't think it is necessary. In their current uncertainty, more workers are likely to acknowledge that they need to do something to increase their financial security in retirement.

Next, the willingness of workers to at least think about staying longer in the workforce is crucial, and that is clearly happening. While not all workers will be able to work for as long as they would like, delaying retirement by even one or two years among those who can will significantly improve retirement security by providing more years to save, shortening the number of years that retirement savings need to last, and postponing the age at which workers begin to receive Social Security benefits.

Third, we need to focus attention on helping people understand the importance of having sufficient assets at older ages and the penalty of running out of assets. This also means getting people to take a realistic look at the level of income they can expect to receive from Social Security and any defined benefit pension plans and think through ways to help retirees understand the best ways of investing during retirement and assessing how much they should retain each year in assets.

Finally, we need to focus on helping people understand how much sustainable lifestyle they can get if they continue to save at their current rate. While many workers are expecting to cut their expenses when they retire, many may not be anticipating as extreme a reduction as their modest savings are likely to force on them. I hope this will lead to more effective retirement planning and better savings decisions.

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