Script for Mathew Greenwald

2010 Retirement Confidence Survey
March 9, 2010

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 to bad times, such as the fear that followed 9/11 and the recent Great Recession. The latest economic downturn has presented an especially difficult set of challenges, but a few opportunities as well.

Let me first address some challenges. I'd like to start on one of the points Jack made: workers' increasing lack confidence about their <u>financial preparations for retirement</u>. Although the percentage *very* confident they are doing a good job of preparing financially for their retirement held steady at 21 percent, the percentage who are *not* confident has continued to increase, from 30 percent in 2009 to 35 percent in 2010.

It is clear that this lack of confidence is well justified. The percentage of workers reporting that they and/or their spouse have saved for retirement, which rose briefly in 2009 to 75 percent, has declined to 68 percent this year. The percentage of workers indicating they and/or their spouse are *currently* saving for retirement is also down, from 65 percent in 2009 to 60 percent. And the large majority of those who have <u>not</u> saved for retirement say they have not done so because they cannot afford to save—which suggests that the percentage saving is not likely to increase markedly in the near future, even if those who can save more will do so. The impact of the recession is clear in our data.

Also, the proportion of workers who have virtually no money in savings and investments has increased over the past year. Among workers who answered a question about their level of savings, more than one-quarter – 27 percent – indicate 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 $1,000, an increase from 20 percent in 2009. Altogether, more than half – 54 percent – report that their savings and investments total to less than $25,000. While savings tend to increase with age, 42 percent of workers ages 45 and older have savings and investments under $25,000.

One reason that savings are so modest may be that many workers simply do not know how much they have to accumulate to have a good chance of affording a comfortable retirement, or even have a good chance of not running out of money and ending their lives either in deprivation or very dependent on hand outs from their offspring. Less than half — only 46 percent — 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.

Further, the amounts that workers <u>say they need to accumulate</u> for a comfortable retirement appear to be rather low, often far too low to maintain something even close to their lifestyles while working. Twenty-nine percent of workers say they need to save less than $250,000, and another 17 percent think they need to save between $250,000 and $500,000. An EBRI analysis indicates that a couple turning age 65 in the year 2018, meaning they are both age 57 now, will have to accumulate $325,000 just to pay for Medicare premiums, an average Medigap policy and prescription drugs, once they turn age 65, assuming they have an average life expectancy and have average pharmaceutical costs. Of course, their Medicare premiums will be deducted from their Social Security checks, but that means their Social Security income will be reduced.

So what are workers doing to bolster their preparations for retirement? One fairly common adjustment is to postpone the age at which they plan to retire. Twenty-four percent of workers in the 2010 RCS say that they have delayed their retirement age in the past year. And while the age at which workers plan to retire shows little change between 2009 and 2010, it has crept up incrementally over time. In particular, the percentage of workers who expect to retire after age 65 has increased from <u>11 percent in 1991</u> to <u>14 percent in 1995</u>, <u>19 percent in 2000</u>, <u>24 percent in 2005</u>, and <u>33 percent in 2010</u>. Many workers who find it difficult to save more now, say they will work more in later years.

The idea of working longer is, of course, a good idea for many and shows an important dose of realism. But will all who want to work longer be able to? Not everyone gets to work as long as they want. The median age of retirement reported by retirees is 62. Forty-one percent say they retired before they planned to, most often because of health problems or disability, company downsizing or closure, and other factors beyond their control.

I would also note another implication of working longer: For those who are looking desperately for work, that means existing jobs are not likely to turn over as quickly as they otherwise would. These findings suggest the job market will continue to be very tight.

Reliance on two other risky strategies for improving retirement security is also increasing.

- The percentage of workers who report that paid employment will provide them with a source of income in retirement now stands at 77 percent, up from 70 percent in 2005. Yet only 23 percent of retirees report that they have actually worked for pay in retirement. Clearly, not all who are planning to rely on this strategy will find themselves able to do so.
- Next, workers may be basing their assessment of how much they will spend in retirement on the money they <u>expect</u> to have, rather than the money it <u>will cost</u> to maintain an acceptable lifestyle. Fifty-seven percent of workers expect their spending in retirement will be lower than their pre-retirement spending, compared with 49 percent of retirees who report their actual spending is lower. Further, some workers appear to have adjusted their estimates about their likely spending in retirement downward in recent years. In 2007, 20 percent of workers believed their spending in the first five years of retirement would be much lower than before retirement, compared with 25 percent this year.

Although products and retirement plan options that provide guaranteed income each month for life can help to ensure that retirees do not outlive their assets, few workers plan to make use of them. Only 11 percent of workers indicate they are very likely to purchase a financial product or select a retirement plan option that pays them guaranteed income each month for the rest of their life when they retire.

So these are the challenges: low retirement confidence, declining savings, and increasing hope of more paid employment and decreased spending in the future, rather than adequate savings to ensure a comfortable retirement right now. What are the opportunities?

First, the reduced level of 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 the current circumstances, more workers are likely to be receptive to education and advice. It is important that new ways be found to provide that help.

Next, the willingness of workers to at least think about staying longer in the workforce is crucial to improving retirement security for many. 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 do so 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 help people better understand the importance of having sufficient assets at older ages and the penalty of running out of assets. Many think that as they age, they will not need much income. But these workers often overlook how inflation will increase costs and how older people often need long-term care and special housing options that can be extremely expensive.

Finally, we need to help people understand how much sustainable lifestyle they can get if they continue to save at their current rate. Providing this type of feedback now can help workers understand the implications of their current saving and how much they can benefit from higher savings.

There is one RCS finding that suggests that savings will go up. As Jack mentioned, the proportion of workers who indicate that the stock market will be a good long term investment went down from 68% in 2000 to 52% now. Trends over the past half century suggest that when people expect the stock market to do well they save less, probably because of a belief that good returns will make up for less investments. Now that expectations of the market are lower, many will feel pushed to save more.

There are other hopeful signs that some people may be waking up to reality:

- In 2004, 47 percent of workers who had not saved for retirement were nevertheless confident that they would still have enough money for a comfortable retirement. In 2010, that percentage has shrunk to 31 percent, suggesting that workers who previously did not feel the need to save may be waking up to the need to put away at least some money themselves.
- While the retirement savings goals cited by workers often appear too low, the goals mentioned by workers who have done a retirement needs calculation have increased over time. In the 2000 RCS, only 31 percent who did a calculation said they needed to accumulate at least $500,000 for retirement. This year, 54 percent say they need at least this amount.
- Finally, employer-sponsored retirement savings plans, many of which provide extensive opportunities for education, may be among the most effective vehicles available for encouraging workers to save for retirement. Workers who currently participate in this type of plan are three times as likely as those who do not participate or are not offered a plan to report their savings and investments total $50,000 or more.

And that wraps up my overview. Let me turn this back to Steve. I look forward to any questions you may have.

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