



EBRI News

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2005 Retirement Confidence Survey:

How To Increase Worker Savings? 401(k)s Provide Ideas 5 Percent Employer Match Proves Very Popular Among Workers

WASHINGTON—What does it take to get workers to save more in their retirement plan? Based on the 401(k) experience, the message from workers is clear: Show me the money—the matching money—according to the 2005 Retirement Confidence Survey (RCS) released today.

New questions in the 15th annual RCS included a range of options that could persuade workers not contributing to their employment-based retirement savings plan to participate. Nearly three-fourths (72 percent) said an employer matching contribution of up to 5 percent of their salary would make them *much more* likely or *somewhat more* likely to participate in a retirement savings plan at work.

The survey was conducted by the nonpartisan Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates, Inc., and underwritten by several other organizations. It found that a majority of workers not contributing to their employer's retirement plan cited three other factors that also could make them more likely to participate in a workplace saving plan:

- An investment option that automatically provides workers a more conservative investment allocation as their retirement date approaches, such as the “lifestyle” funds some providers currently offer (cited by 66 percent of nonparticipating workers).
- A provision that automatically raises workers' contributions by a fixed amount or percentage when they receive a pay raise (cited by 55 percent of nonparticipating workers).
- A matching contribution by the employer of up to 3 percent of workers' salary (cited by 51 percent of nonparticipating workers).

Less than half of workers not contributing to their employer's plan backed two other options: 49 percent said they would be more likely to participate in a retirement savings plan that included a set of mutual fund investment options with a pre-set mix of conservative, moderate and aggressive investments; and 35 percent said they would be more likely to join a plan in which a professional financial manager made investment decisions based on the results of a questionnaire workers completed.

Dallas Salisbury, EBRI president, said: “These results confirm that workers are well aware of 401(k)-type plans and have some definite ideas about what measures could be undertaken to make these plans even more appealing and ultimately increase retirement savings.”

Currently, more than 3 in 4 eligible workers (78 percent) are offered retirement plans where employers match all or part of their workers' contributions, the survey found. Eighty-two percent of eligible workers said they signed up for their employer's retirement savings plan. About two-thirds (66 percent) of noncontributing workers said automatic enrollment in a retirement plan upon being hired would make them *very likely* or *somewhat likely* to participate.

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The new Retirement Confidence Survey findings are of particular relevance as Congress debates restructuring Social Security to provide voluntary individual investment accounts: Even if such accounts were created, the currently low national savings rate suggests there would be challenges getting many people to use them.

And concerning Social Security, the survey found that nearly 7 in 10 (68 percent) of today's workers are skeptical that Social Security will be able to provide them benefits of at least equal value to those current retirees receive. This proportion has remained relatively constant in recent years and did not change in the 2005 RCS, even as policymakers began discussing major changes in the federal pension system.

The RCS, first released in 1991, is a comprehensive study of the attitudes and behaviors of American workers and retirees toward saving, retirement planning, and long-term financial security. The survey contains a core set of questions that is asked annually, allowing for key attitudes and behavior patterns to be tracked over time. The latest RCS was conducted in January 2005 through 20-minute telephone interviews with 1,253 Americans age 25 and older. The margin of error was plus or minus 3 percentage points. Complete RCS results are available on the EBRI Web site at www.ebri.org and at www.choosetosave.org.

Workers Behind Schedule on Savings

The survey found that most workers, buffeted by daily living expenses, say they are behind schedule in saving for retirement. But a large majority (66 percent) believes they will reach their savings goal by the time they stop working, even if they have only guessed at the amount of money they will need—an indication that many people's confidence may be misplaced.

Why aren't workers meeting their own retirement savings schedules? The RCS found that three reasons stand out: The cost of paying everyday expenses (49 percent), child-rearing expenses (39 percent), and medical costs (35 percent).

Just over half of workers (51 percent) said that high expenses are preventing them from achieving their retirement savings goals. Still, nearly 8 in 10 workers (79 percent) said they expect to have at least an adequate standard of living in retirement, reflecting an apparent confidence that they will be able to bolster their savings before they stop working or that they will be comfortable living with less. Another question, long part of the survey, found that 64 percent of workers are *somewhat* or *very confident* that they will accumulate the resources they anticipate they will need to retire.

However, as previous waves of the survey have found, the 2005 RCS again suggests this may well be false confidence for many Americans: Less than half (42 percent) of those surveyed said they had even tried to figure out how much money they will actually need in retirement. Of those who said they had tried to calculate their retirement needs, 35 percent said they asked a financial advisor, but 37 percent said they came up with their own estimate and 10 percent admitted they simply guessed at the amount needed. The rest gave a variety of answers.

Asked to evaluate their own timetable for planning and saving for retirement, more than half of workers (55 percent) said they were behind schedule by various amounts. But more than one-third of workers (37 percent) said they were on track. Workers reported their progress in planning and savings had changed little over the last year.

“Eliminating consumer debt and curbing spending is a must if many workers are to save adequately for a comfortable retirement,” said Mathew Greenwald, president of Greenwald & Associates, said: “Six in 10 workers report their level of debt is a problem, and half report they carry credit card debt. Workers who estimate they are behind schedule saving for retirement are significantly more likely than those on track or ahead of schedule to have problems with debt and credit card debt.”

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Variny Paladino, director of the RCS, said the survey reaffirmed what has long been known—that many Americans need to take retirement planning more seriously and develop a plan to assure that they have adequate resources when they stop working. She noted the RCS also found that among those who have estimated their retirement needs, almost half (44 percent) said they made changes to their retirement planning as a result.

Other Findings

The survey produced these additional findings:

- **Health Care Concerns:** Despite expressing overall confidence about their retirement, workers are worried about paying for health care. For example, 51 percent said they were *not at all* confident or *not too* confident of having enough money to pay for nursing home care or home care. And 41 percent had doubts about being able to pay for their medical expenses in retirement, even though a new Medicare benefit (paying part of the cost of prescription drugs) is scheduled to take effect next January.
- **Self-Reported Savings Rate Constant:** More than 6 in 10 workers (62 percent) said they and their spouse are currently saving, statistically equivalent to the 58 percent level found in 2004.
- **Why People Save:** Other than for retirement, the most frequently cited reasons for why workers save was to pay for the education of their children or grandchildren.
- **Most Expect to Work in Retirement:** Two-thirds of workers (66 percent) said they expect to work for pay in retirement. While reasons for working were not asked this year, the 2004 RCS found that those expecting to work most often said they wanted to remain active and engaged, although 7 in 10 identified at least one financial motive for working.

Attitudes/Responses from Retirees

The survey also measured the attitudes of retirees on a number subjects. For example, 45 percent of retirees said they are now more concerned about their financial future than they were immediately after they stopped working. But a statistically equal number, 44 percent, said they were less concerned.

Among retirees, nearly half (47 percent) said their income from all sources, including Social Security, employer-provided pensions, and savings, was lower than when they were working. More than one-third (38 percent) said their retirement income was about the same, and 14 percent said their income actually had increased in retirement.

Asked to describe their financial lifestyle in retirement, 71 percent said it is “adequate.” Ten percent described themselves as well off, but nearly double that number (17 percent) said they were struggling.

At www.ChoosetoSave.org, individuals can review the 2005 RCS, begin building their savings plan by completing the *Ballpark Estimate*[®] retirement planning worksheet, and use more than 100 other calculators related to savings, credit card management, college savings, and other topics.

Founded in 1978, EBRI’s mission is to contribute to, encourage, and enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI is a private, nonprofit, nonpartisan public policy research organization based in Washington, DC. EBRI does not lobby and does not take positions on legislative proposals.

Mathew Greenwald & Associates, Inc., is a full-service market research company with an expertise in financial services research. Founded in 1985, Greenwald & Associates has conducted public opinion and customer-oriented research for more than 100 organizations, including many of the nation’s largest companies and foremost associations.

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