Are Workers Kidding Themselves? Results of the 1995 Retirement Confidence Survey

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Issue Brief

- While three-quarters of American workers are confident regarding their retirement income prospects, many should probably evaluate their situation to determine whether their confidence is justified. Many, but not all, American workers recognize the need to save (among those confident, 30 percent have nothing saved for retirement); however, most have not gone the next step and developed a saving plan based on a target. Among confident savers, 60 percent have not tried to calculate how much they will need to save to fund a comfortable retirement lifestyle.

- These are some of the highlights from the 1995 Retirement Confidence Survey. This *Issue Brief* discusses key findings from the survey, including workers' confidence, and potential false confidence, regarding retirement income prospects; worker knowledge of retirement finance issues; employer efforts to educate participants in 401(k)-type plans; worker and retiree attitudes on issues concerning retirement; and the public's attitudes regarding Social Security and Medicare.

- Survey findings indicate that, among workers with 401(k)-type plans, participant education does impact decisionmaking. Two-fifths of participants who utilized plan-provided educational material reported that it led them to increase their contributions. Almost one-half indicated that the material led them to change their asset allocations in the plan. While workers with less formal education are less likely to utilize educational material that is provided, when they do use the material they are equally or more likely to alter their behavior as a result.

- While workers believe their lifestyle will improve in retirement, retirees believe their lifestyle in retirement has declined. The 26 percent of workers describing their current lifestyle as "just making ends meet" declines to 16 percent when these respondents are asked about their expected retirement lifestyle. Among retirees, a larger proportion indicate they had a "very comfortable" lifestyle before retirement (18 percent) than during retirement (13 percent), and a larger fraction classify their current lifestyle as "struggling to get by" (10 percent) than classify their preretirement lifestyle in that manner (7 percent). The fact that workers generally expect to be better off in retirement while retirees seem to have experienced the opposite further highlights the need for workers to develop thoughtful retirement saving plans.

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Introduction

Americans are thinking about retirement, and while the overwhelming majority do not think that their fellow citizens are doing an adequate job of preparation, most feel good about their individual situation. **Eighty-four percent of Americans believe that most people in the United States do not save enough money to live comfortably throughout retirement. However, two-thirds (67 percent) of current workers expect their retirement lifestyle to be either very comfortable or comfortable.** While on the surface this 67 percent figure corresponds closely with the 62 percent of workers who report that they have saved some of their own money for retirement, a closer analysis gives reason to suspect that some workers may be unrealistically optimistic.

Among those who are confident regarding their retirement income prospects, the majority have either not started saving on their own for retirement or are saving but without having calculated how much they will need to accumulate by retirement. This indicates that the confidence of many may not be well founded, i.e., they are not saving toward a well-informed, calculated goal. This should not obscure the fact that the majority have started to save, but it highlights the potential for false confidence.

These are some of the highlights from the 1995 Retirement Confidence Survey, co-sponsored by the Employee Benefit Research Institute (EBRI) and Mathew Greenwald and Associates. This *Issue Brief* discusses these and other key findings from this year's survey[1] along with time trends utilizing previous waves of the survey. Specifically, the *Issue Brief* discusses workers' confidence, and potential false confidence, regarding their retirement income prospects; workers' knowledge of retirement finance issues; employer efforts

[1] One thousand Americans over age 25, both current workers and current retirees, were interviewed by telephone between August 1 and August 23, 1995. The sample was representative of the U.S. population. Among those interviewed, 756 were not retired and 244 were retired.

This *Issue Brief* was written by Paul Yakoboski of EBRI with assistance from the Institute's research and editorial staff.

to educate participants in 401(k)-type plans; the similarities and differences in workers' and retirees' attitudes on issues concerning retirement; and the public's attitudes regarding Social Security and Medicare.

Workers' Confidence

The vast majority of Americans were confident about their retirement income prospects in 1995. Twenty-two percent of current workers were very confident that they will have enough money to live comfortably throughout their retirement years, and 52 percent were somewhat confident (total confident is thus 74 percent) (chart 1). Overall confidence in 1995, after dropping in 1994, rebounded to 1993 levels, when 19 percent of workers were very confident and 55 percent were somewhat confident. But is this confidence justified? Given that many of these workers have not started to save, and those who have started often seemed to be saving without a specific goal in mind, there are probably many for whom confidence is not well founded.

Are Workers Justified in Their Stated Confidence?

The overwhelming majority of very confidents and somewhat confidents have given thought to their own retirement. Seventy percent of very confidents and 58 percent of somewhat confidents have given a great deal of thought to the subject. An additional 22 percent and 35 percent of each group, respectively, have given a little bit of thought to the subject.

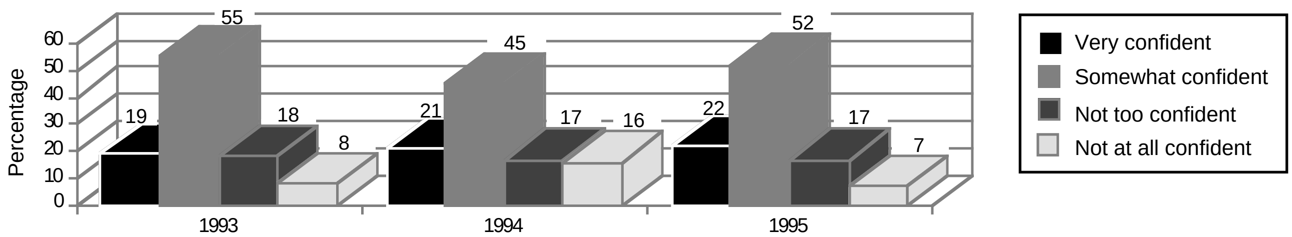
However, one-quarter (23 percent) of very confidents and one-third (34 percent) of somewhat confidents have set aside no money of their own for retirement, including money from a 401(k)-type plan (calculated from table 1). Among the very confidents, 30 percent of those aged 26 to 34 have no money set aside. This percentage ranges from 19 percent to 15 percent for those aged 35–64 and jumps to 40 percent for those aged 65 and over. Among the youngest somewhat confidents (aged 26–34) almost one-half (45 percent) have nothing set aside. Fifty percent of very confidents with incomes under $25,000 and 72 percent of somewhat confidents in the same income group have nothing set aside. These are individuals who very well may have a false sense of confidence. Many individuals may not be aware of the need to begin saving early for retirement or may not understand the advantage of beginning to save early. Even small sums of money set aside on a regular basis can compound into a sizable nest egg over a period of three or four decades.

Among those who are confident and have started saving for retirement, 90 percent try to save on a regular basis. However, among these confident savers, relatively few (one-half of very confidents and one-third of somewhat confidents) have tried to figure how much money they will need to have saved by retirement to fund a comfortable lifestyle. The only demographic categories in which more than one-half have tried to make the calculation were very confidents under age 45 and very confidents of all ages earning over $50,000. While many individuals are saving, it is unfocused saving. Without a well thought out goal in mind, it is hard to tell whether one's saving will prove adequate or to know how to alter one's saving behavior over the course of a career to achieve financial security in retirement (table 1).

Therefore, among those who are very confident, 62 percent have either not started saving on their own (including saving through a salary reduction plan at work) or are saving but without a plan based on a calculated target. Among those who are somewhat confident, the comparable figure is 78 percent. This indicates that the confidence of many may not be well founded. This lack of saving and/or planning should not obscure the fact that the majority have started to save, but it highlights workers' need for educational material to help them construct a well thought out retirement saving plan that can then be executed.

Most of those workers who are confident in their retirement income prospects seem to have realistic expectations regarding their most important source of retirement income. Only 2 percent

Chart 1
Confidence Among Current Workers in Having Enough Money To Live Comfortably in Retirement



Source: Employee Benefit Research Institute/Mathew Grenwald and Associates, 1995 Retirement Confidence Survey.

of very confidents and 10 percent of somewhat confidents cited Social Security.[2] Sixty-eight percent of very confidents and 55 percent of somewhat confidents cited their own individual saving. Twenty-two percent and 29 percent of each group, respectively, cited an employer-funded pension.

Expectations of Retirement Age

A conclusion of potential false confidence among many was reinforced in other areas. The average expected age of retirement for very confidents was 60, with 49 percent planning to retire at age 60 or younger. Among the somewhat confidents, the average expected age of retirement was 63, and 31 percent expected to retire at age 60 or younger. Very confident workers aged 35–44 had an average expected retirement age of 57. Given increases in life expectancy and the fact that the normal retirement age for receiving full Social Security benefits is in the process of increasing to age 67, retirement at such relatively young ages will require significant personal resources. Again, individuals may not fully appreciate just how much. On the other hand, one-half of very confidents and two-thirds of somewhat confidents plan to work at least part-time once they retire. Thus seemingly low expected retirement ages, especially among the young, could be the result of changing perceptions of what it means to be "retired."

Retirement Confidence Indices

As part of the EBRI/Greenwald Retirement Confidence Survey, a retirement confidence index is calculated to measure the levels of respondents' confidence in their individual ability to prepare financially for retirement and confidence in the federal government's ability to provide support to them in their retirement years. **The proportion of Americans (both workers and retirees) who are classified as self-sufficient (high in personal confidence and low in confidence in the government) increased from 23 percent in 1992 to 30 percent in 1995 (chart 2). The survey shows clear signs of what may be the start of a significant shift toward increased dependence on individual responsibility and saving effort and reliance on employment-based programs and away from reliance on government programs.**

This increase in the fraction of Americans classified as self-sufficient was matched by a decrease of 6 percentage points in the fraction of respondents classified as faithful over the same period, from 18 percent to 12 percent. Faithfuls are low in personal confidence and high in confidence in government regarding retirement. Thirty percent of respondents were classified as doubly assured (high in personal confidence and high in confidence in government) in 1995 (in 1992 the figure was 32 percent). Twenty-seven percent of respondents were classified as worried (low in personal confidence and low in government confidence) in 1995, compared with 28 percent in 1992.

Such trends are not surprising given current developments. There has been much debate recently about the long-term financial stability of the Medicare program and what should be done to ensure it. In addition, the level of Social Security benefits is already being scaled back as the age for receipt of normal retirement benefits is now in the process of being raised from 65 to 67. Projections by the Social Security Board of Trustees show that the Old-Age, Survivors, and Disability Insurance (OASDI) program is expected to begin showing a negative cash flow in 2013, and the trust fund will be exhausted in 2030. A shift in expectations from reliance on government to reliance on one's self actually

[2] One-quarter (23 percent) of somewhat confidents with incomes under $25,000 expect Social Security to be their most important retirement income source. Social Security does replace a proportionately greater share of preretirement income for lower income workers, and this is likely to remain a feature of the system even after its likely reform in the not too distant future.

Table 1
Confidence or False Confidence Among Current Workers Regarding Their Retirement Income Prospects, 1995

	Very Confident	Somewhat Confident
Overall, how confident are you that you will have enough money to live comfortably throughout your retirement years?	22%	52%
Percentage who have given a great deal of thought to their retirement.	70	58
Percentage who have any money set aside for retirement that they have saved on their own, aside from Social Security taxes or an employer-funded pension plan.	77	66
Among savers, the percentage who try to save regularly for retirement.	92	90
Among savers, the percentage who have tried to figure out how much money they will need to have saved by retirement so that they can live comfortably in their retirement.	49	33
Percentage expecting personal saving to be their most important source of income in retirement.	68	55

Source: Employee Benefit Research Institute/Mathew Greenwald and Associates, 1995 Retirement Confidence Survey.

would seem to indicate a healthy degree of realism among Americans regarding current trends and developments.

Who Are the Self-Sufficients?

The fraction of respondents classified as self-sufficient tended to rise with household income, increasing from 18 percent for those with household incomes less than $25,000 to 40 percent for those with household incomes of $50,000 or more. Similarly, the fraction classified as doubly assured increased with household incomes from 23 percent to 39 percent. Among those with household incomes under $25,000, 40 percent were classified as worried and 19 percent were faithful. By comparison, among those with household incomes of $50,000 or more, 14 percent were classified worried and 7 percent were faithful.

The fraction of respondents classified as self-sufficient also tended to rise with educational levels. Nineteen percent of those with a high school degree or less were self-sufficient, 34 percent of those with some college were self-sufficient, and 41 percent of college graduates were classified as self-sufficient.

Focusing solely on individual confidence, the average personal confidence index score was 8.2 in 1995. (Index scores range from 3 (not confident) to 12 (very confident)). The 1995 average was slightly higher than the 1994 average of 8.0. Perhaps as a reflection of continued strength in the economy, the personal confidence index returned to the 1993 level of 8.2 and continues the upward trend since 1992, when the average index of personal confidence was 7.8. Focusing solely on confidence in government, the average government confidence score was 6.3 in 1995. (Index scores range from 2 (not at all confident) to 12 (very confident)). The 1995 average score was a decline from the mean score of the past three waves in which the index was constructed. As mentioned, the swell in public discourse on the long-term financial viability of Social Security and Medicare may be causing a decrease in the public's level of confidence in these two programs.

Worker Education

Participant education in employment-based retirement saving plans, such as 401(k) plans, is an area of intense focus among public policymakers as well as among plan sponsors. Much attention is now being directed at "what works" in terms of helping workers plan and save for retirement. **Almost three-quarters (72 percent) of current workers participating in some type of salary reduction retirement saving plan, such as a 401(k) plan or 403(b) plan, say that their employer has provided them with educational material or seminars regarding the plan. Among those with such resources available, the vast majority (85 percent) read the material or attended the seminars.** This indicates a high interest level among workers regarding their plans. In addition, there is evidence that such material does impact worker behavior, which bodes well for improved retirement income prospects in the future.

The propensity to utilize educational material increased with both worker educational levels and household incomes. Seventy-five percent of workers with a high school degree or less reported using the information when provided. This figure rose to 89 percent among those with a college degree. The utilization rate was 72 percent for

Chart 2
Retirement Confidence, 1992 Versus 1995

Source: Employee Benefit Research Institute/Mathew Greenwald and Associates, 1995 Retirement Confidence Survey.

workers with household incomes of less than $25,000, compared with 89 percent for workers with household incomes over $50,000. For workers up to age 55, there was not much variation in the utilization rate, but it was noticeably higher (over 95 percent) for workers aged 55 and over. Thus, while most workers will take advantage of the educational material offered, employers may want to focus extra effort on less educated, lower paid employees, who are less likely to use the material provided.

Among those reading the material or attending the seminars, 95 percent reported that the material included a description of the investment options available in the plan. Ninety-four percent reported that the advantages of saving in a tax-deferred plan were covered. Noticeably fewer workers (69 percent) reported that the principles of asset allocation and diversification were covered. Similarly, 69 percent reported that the material covered estimating the income needed in retirement. These findings indicate areas on which employers, as plan sponsors, may want to focus additional educational efforts. Combined with other findings in the survey, they indicate that estimating retirement income needs, in particular, is an area in which current workers need additional education and assistance. Even though almost 70 percent report that estimating income needs is covered, **very few savers in general have tried to estimate how much they need to accumulate by the time they retire (among all workers who have started saving for retirement, only 35 percent have tried to calculate how much they need to save by retirement to fund a comfortable lifestyle), and most who have tried cannot give an amount when asked** (among the 35 percent who have reportedly made the calculation, one-half could not give a number when asked). Apparently even when the subject matter is presented, it is not in a form that workers find user friendly or understandable, and therefore they do not try to use it. In addition, in the area of asset allocation, responses to other questions indicate that many respondents do not understand the risk and return characteristics of basic investment options.

Impact of Educational Material

Two-fifths (39 percent) of all workers utilizing employer-provided educational material reported that the materials or seminars led them to increase the amount of their contributions to the plan. This effect was slightly more likely for workers with a high school degree or less (43 percent versus 38 percent) and most likely for middle income workers (44 percent among those with incomes of $25,000–$50,000). Almost one-half (46 percent) of all workers utilizing the material provided reported that it led them to reallocate their money among the options available in the plan. Again, this effect was slightly more likely among those with a high school degree or less (50 percent) than among those with more education (45 percent).

Interestingly, while workers with less formal education (i.e., a high school degree or less) are less likely than their peers to utilize educational material that is provided, when they do use the material, they seem to be equally or more likely than their peers to alter their behavior as a result. This indicates that plan sponsors may want to focus additional attention on reaching this segment of workers.

Financial Knowledge

The majority of working Americans appear to have a limited amount of financial knowledge regarding issues important in planning and saving for retirement. For the first time in 1995, the Retirement Confidence Survey attempted to assess Americans' general knowledge regarding retirement planning and saving issues. Respondents were asked four true/false questions and one multiple choice question.

Over one-quarter (28 percent) of all workers had a high degree of retirement financial knowledge (four or

Table 2
Financial Knowledge and Retirement Planning Among Current Workers, 1995

	Highly Knowledgeable	Moderately Knowledgeable	Less Knowledgeable
		(percentage)	
Aside from Social Security taxes or an employer-funded retirement plan, has money set aside for retirement that they saved on their own, including 401(k)-type plans.	67%	65%	44%
Try to save regularly for retirement by saving something once a month, once every pay period, or in another regular way. (Asked of those who have set money aside for retirement.)	92	87	84
Tried to figure out how much money they will need to have saved by the time they retire so they can live comfortably in retirement. (Asked of those who have set money aside for retirement.)	42	34	25

Source: Employee Benefit Research Institute/Mathew Greenwald and Associates, 1995 Retirement Confidence Survey.

five correct answers). Eight percent provided correct answers to all five questions. Fifty-five percent of all workers displayed a moderate level of retirement financial knowledge (two or three correct answers), and 16 percent had little relevant knowledge of financial issues (zero or one correct answers).

Workers tended to have more knowledge than retirees regarding the financial issues covered; 18 percent of retirees scored very highly, 52 percent were "moderately knowledgeable," and 29 percent were "less knowledgeable."

Average scores among workers tended to rise with educational levels and household income. Those with a high school degree or less had an average score of 2.45, compared with an average score of 3.45 for college graduates. The average score increased from 2.41 for those earning less than $25,000 to 2.98 for those earning over $50,000. Scores did not vary with worker age.

Workers who are highly and moderately knowledgeable about financial issues are more likely (67 percent and 65 percent, respectively) than less knowledgeable respondents (44 percent) to have money other than Social Security or an employer-funded pension plan set aside for their retirement (table 2). In addition, moderately or highly knowledgeable respondents are more likely than respondents who have less financial knowledge to have taken steps to prepare for their retirement. However, when comparing the highly and moderately knowledgeable, the highly knowledgeable are more likely to have already begun setting aside money for retirement, to try to save for retirement on a regular basis, and to have tried to figure out how much they will need to have saved by the time they retire.

Financial Knowledge and Implications for Savings Decisions

Eighty-three percent of workers knew that the average person retiring today will need 60 percent to 80 percent of his or her preretirement work income during retirement to maintain the same standard of living that he or she had before retiring (table 3). The vast majority of workers understand the level of their preretirement income that must be replaced in retirement in order to maintain their standard of living.

Fifty-five percent of workers knew that, over the past 20 years, U.S. government bonds provided a lower rate of return than the U.S. stock market (table 3). Appropriate asset allocation decisions by retirement savers depend on their knowledge of the risk and return tradeoffs among various investment classes. This finding indicates that many individuals do not have a working knowledge of the relative historical returns among some basic investment options.

Thirty-eight percent of workers knew that employer stock is not typically a less volatile investment for employees than investing in a diversified portfolio of stocks (table 3). Many workers are interested in a "safe" investment for at least some of their retirement savings and view employer stock as such an investment without understanding how it compares with other options that may be available to them.

Fifty-six percent of workers knew that, historically, the probability of losing money (in nominal terms) in a mixture of stocks from different industries has not risen the longer the investment is held (table 3). This finding reinforces the finding that workers have a limited understanding of investment basics regarding risk and return tradeoffs and the historical performance records of different investment classes.

Forty-two percent of workers knew that a male retiring at age 65 today can expect to live to age 80.[3]

[3] *The average life expectancy for males at age 65 in 1992 was 15.5 years, according to the U.S. Department of Health and Human Services, Public Health Service,* Health United States, 1993 *(Washington, DC: U.S. Government Printing Office, 1994).*

Table 3
Retirement Financial Knowledge Among Current Workers, 1995

	Percentage Who Answered		
	True	False	Don't know
Over the past 20 years, U.S. government bonds have provided lower return on investment than the U.S. stock market. (TRUE)	55%	20%	25%
Employer stock is typically a less volatile investment for employees than investing in a diversified portfolio of stocks. (FALSE)	38	38	24
The probability of losing money on an investment in a mixture of stocks from different industries goes up the longer you hold on to the investment. (FALSE)	29	56	14
The average person retiring today will need 60 percent to 80 percent of his or her work income during retirement to maintain the same standard of living that they had just before they retired. (TRUE)	83	14	4
	75 years	80 years	90 years
Do you believe a male retiring at age 65 today can expect to live to 75 years, 80 years, or 90 years old? (80 YEARS)	42	42	10

Source: Employee Benefit Research Institute/Mathew Greenwald and Associates, 1995 Retirement Confidence Survey.

Forty-two percent incorrectly thought he would live to age 75, 10 percent thought to age 90, and 5 percent did not know (table 3). Many workers would seem to underestimate the amount of time that they are likely to spend in retirement, with the potential implication that they will accumulate insufficient assets to maintain their desired standard of living throughout their retirement.

Workers Versus Retirees

Current workers and retirees are equally confident regarding their retirement income prospects. Among current workers, 22 percent are very confident that they will have enough money to live comfortably throughout retirement, and an additional 52 percent are somewhat confident (total of 74 percent are confident). The figures for current retirees are relatively similar; 27 percent of current retirees are very confident that they will have enough money to live comfortably throughout retirement, and 48 percent are somewhat confident (total of 75 percent are confident).

Standard of Living Expectations

However, **current workers and retirees differ notably in their perceptions and expectations regarding their standard of living before and after retirement. While workers seem to believe their lifestyle will improve with retirement, retirees believe their lifestyle in retirement has declined** (chart 3). The 26 percent of workers who describe their current lifestyle as "just making ends meet" declines to 16 percent when respondents are asked to describe their expected retirement lifestyle. Similarly, the proportion who believe their lifestyle in retirement will be "very comfortable" increases to 14 percent from 9 percent who describe their current lifestyle as very comfortable. Among retirees, a slightly larger proportion indicate they had a "very comfortable" lifestyle before retirement (18 percent) than indicate this level of satisfaction with their lifestyle during retirement (13 percent). In addition, more retirees describe their current lifestyles as "just making ends meet" (20 percent), compared with those who described their preretirement lifestyle that way (16 percent). Similarly, a larger fraction of current retirees classify their current lifestyle as "struggling to get by" (10 percent) than classify their preretirement lifestyle in the same way (7 percent).

The fact that current workers generally expect to be better off in retirement, or at least just as well off, while retirees seem to have actually experienced the exact opposite further highlights the need for current workers to develop thoughtful retirement saving plans and then follow through with them, lest they reach retirement age and face the prospect of a reduced standard of living or the need to remain active in the work force longer than anticipated.

Sources of Income

Not surprisingly, current workers' perceptions of what will be their most important source of retirement income differs from retirees' views of their most important source of retirement income. **The majority (53 percent) of current workers expect money they save themselves to be their most important source of income in retirement; 25 percent cite money they put into saving or retirement plans through work,**

and 28 percent cite their own personal saving and investments. One-quarter (26 percent) of current workers expect money their employer puts into a pension plan to be their most important retirement income source. Thirty-eight percent of current retirees say that Social Security is their most important source of retirement income, whereas only 14 percent of current workers expect it to be their most important source. One-third of retirees (33 percent) say that money they saved, either through an employment-based plan (11 percent) or otherwise (22 percent), is their most important income source, and 24 percent cite money their employer put into a pension plan. Such differences are not surprising given the increase in the normal retirement age that many current workers will experience for full Social Security benefits and the debate regarding what changes should be made to ensure the Social Security system's long-range financial solvency. These differences also reflect the growth of retirement saving plans such as 401(k) plans in the work place.

Saving Patterns

More current workers report saving on their own for retirement relative to current retirees, and they also report beginning to save at an earlier age and were more likely to save on a regular basis. Slightly over one-half (53 percent) of retirees reported having saved any money on their own for retirement (aside from Social Security taxes or an employer-funded retirement plan). By comparison, 62 percent of current workers reported having saved money on their own for retirement. In addition, 88 percent of current workers who have saved reported that they try to save regularly for retirement, and that 56 percent had started saving by age 30. Among the 53 percent of retirees who saved for retirement, 81 percent tried to save on a regular basis, but only one-quarter (27 percent) started saving by age 30. These differences can probably be largely attributed to the growth of 401(k)-type retirement saving plans in the work place.

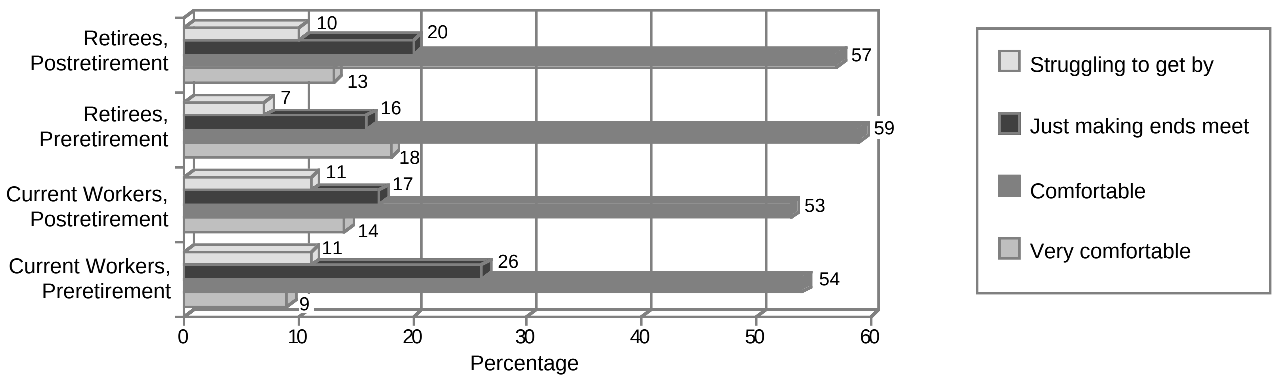
When it comes to financial planning for retirement, it is also not surprising to find that current workers report utilizing a wider array of information resources than retirees. Eighteen percent of current workers report receiving assistance from a stockbroker, 28 percent from an insurance agent, 18 percent from an accountant, and 40 percent from an employer. Fifteen percent of retirees reported receiving assistance from a stockbroker, 17 percent from an insurance agent, 12 percent from an accountant, and 25 percent from an employer. Among current workers participating in a salary reduction plan (401(k) plan or 403(b) plan) at work, 72 percent received some type of educational material or seminars regarding the plan, compared with 59 percent of retirees who received such educational material when participating in such a plan while still working.

Social Security and Medicare

Forty-three percent of all Americans are not confident (either not too confident or not at all confident) that they have a good understanding of how the Social Security system works. This proportion is up from 38 percent in 1992. The proportion who are *not at all* confident of their understanding of the system was 13 percent in 1995, up from 10 percent in 1992 (chart 4). Similarly, over one-half (53 percent) of all Americans report that they are not confident that they have a good understanding of how the Medicare system works. This figure is close to the 55 percent reported in 1992. The proportion who are *not at all* confident in their understanding of the Medicare system was 24 percent in 1995, up from 20 percent in 1992. Combine these findings with the likelihood that some of those who think they have a good understanding of these programs actually do not, and one can conclude that over one-half of Americans do not know how the major U.S. public retirement security programs function.

Fundamental changes in the functioning of the Medicare system are currently being debated, and changes to ensure the long-term financial solvency of the Social Security system will be debated in the not too distant future; yet a sizable fraction of the population admits it does not have a good understanding of how

Chart 3
Preretirement and Postretirement Lifestyles Among Current Workers and Retirees, 1995



Source: Employee Benefit Research Institute/Mathew Greenwald and Associates, 1995 Retirement Confidence Survey.

these systems work. The acceptability of various proposals will ultimately depend on what the public understands and does not understand.

Older Americans profess to having a better understanding of how the Social Security system functions. **Fifty-five percent of respondents aged 26–34 were not confident in their understanding of the system, compared with 31 percent of those aged 65 and over.** Understanding of how the Social Security works also tended to increase with educational levels and household incomes. Older Americans, i.e., those aged 65 and over, were the only age group in which more than one-half the respondents said they were confident that they had a good understanding of how the Medicare system works. This is not surprising given that this is the group that would have direct experience in terms of receiving benefits from these systems.

Confidence in Future Benefit Levels

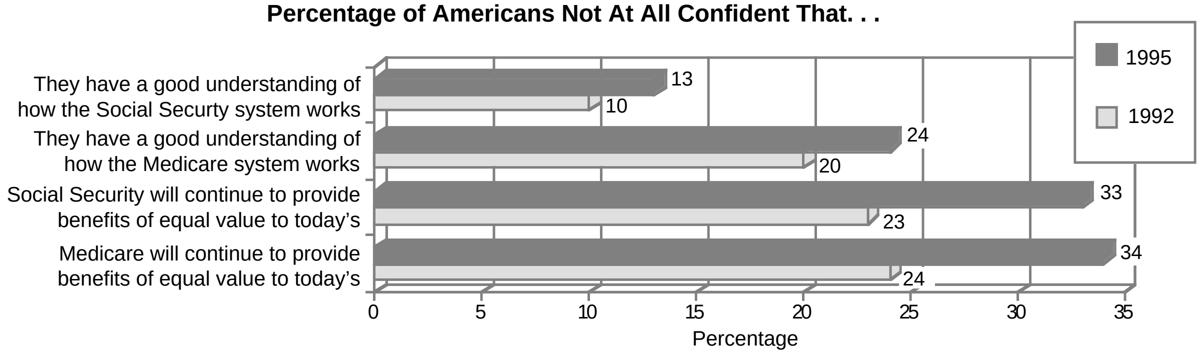
Only 24 percent of Americans are confident that the Social Security system will continue to provide benefits of value equal to that of the benefits received by retirees today, down from 33 percent in 1992. Thirty-three percent of Americans are *not at all* confident that the Social Security system will continue to provide benefits of value equal to that of the benefits received by retirees today, up from 23 percent in 1992 (chart 4). While many do not think they have a good understanding of how the system works, the vast majority appear to be very realistic regarding what the system is likely to provide in the future. Future benefit levels are already being cut for many current workers with the increase in the normal retirement age from 65 to 67. This response would also seem to indicate that many understand that changes, i.e., benefit cuts and/or tax increases, will have to be made to guarantee the system's long-term financial solvency.

Similarly, only 24 percent of respondents are confident that the Medicare system will continue to provide benefits of value equal to that of the benefits received by retirees today, down from 28 percent in 1992. Thirty-four percent of Americans are *not at all* confident that the Medicare system will continue to provide benefits of value equal to that of the benefits received by retirees today, up from 24 percent in 1992 (chart 4). Given that the survey was conducted in August, this finding should not be viewed as a reflection of Americans' views on current proposals to reform the Medicare system but rather as a general sense of what the system can be expected to provide in the future.

Retirees express greater confidence than workers in both Social Security and Medicare. Two-thirds say they are very or somewhat confident that they have a good understanding of Social Security (67 percent) and Medicare (55 percent), compared with one-half of workers who are as confident in their understanding of Social Security (51 percent) and two-fifths who are as confident in understanding Medicare (42 percent).

Retirees are less confident in the two programs' ability to continue to provide benefits of value equal to that of those it provides retirees today, but they express higher levels of confidence in the programs' ability than do current workers. Forty-three percent of retirees believe Social Security will continue to provide the same level of benefits, and 34 percent believe Medicare will be able to do the same. Only 19 percent of workers express any confidence that Social Security will be able to continue providing benefits at a level equal to the current level of benefits; 21 percent say they are very or somewhat confident that Medicare will be able to continue to provide benefits in the future that have parity with those provided today.

Chart 4
Percentage of Americans Not At All Confident That. . .



Source: Employee Benefit Research Institute/Mathew Greenwald and Associates, 1995 Retirement Confidence Survey.

Implications

While the vast majority (74 percent) of American workers are confident regarding their retirement income prospects, many of those who are confident should probably evaluate their individual situation to determine whether their confidence is well founded. Among the three-quarters of workers confident in their retirement income prospects, 30 percent have nothing yet set aside on their own for retirement, including money in a 401(k)-type plan at work. Among those who are confident and have started saving for their retirement, 60 percent have not tried to calculate how much they will need to save by the time they retire to fund a comfortable lifestyle.

Many, but not all, American workers recognize the need to save. Most have not gone the next step and developed a saving plan based on a well-informed target. This missing plan could be a sign of "false confidence" in their preparations for retirement. For employers and policymakers, it highlights current workers' need for understandable educational material that will assist them in making such calculations and then developing a saving plan accordingly.

This conclusion is particularly important given other survey findings indicating that education does matter and does have an effect on worker behavior. Two-fifths of participants in employment-based retirement saving plans, such as 401(k) plans, who utilized educational material provided by their employer reported that the material led them to increase the amount of their contributions to the plan. In addition, almost one-half indicated that the material led them to reallocate their money among the options available in the plan. While workers with less formal education (i.e., a high school degree or less) are less likely than their peers to utilize educational material that is provided, when they do use the material they seem to be equally or more likely than their peers to alter their behavior as a result. This indicates that plan sponsors may want to focus additional attention on reaching this segment of workers.

Fifty-eight percent of workers have given a great deal of thought to their retirement, and an additional 33 percent have given it a little bit of thought. Combine this with the fact that the majority of workers (53 percent) expect money they save themselves to be their most important source of retirement income, and it is likely that workers would be receptive to material that helps them plan and save for retirement as long as it is understandable and user friendly. This bodes well for both private- and public-sector retirement saving initiatives.

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