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2003 Retirement Confidence Survey:

Retirement Anxieties Grow, But Overall Confidence Changed Little Despite Sagging Stock Market

Baby Boomers Plan to Postpone Retirement Due to Economy

WASHINGTON, DC—Americans' overall confidence in their ability to retire comfortably has decreased only slightly from last year, yet there are strong indications of growing anxiety because of stock market losses and continuing economic turmoil, according to the 13th annual Retirement Confidence Survey (RCS) released today by the Employee Benefit Research Institute, American Savings Education Council (ASEC), and Mathew Greenwald & Associates (Greenwald). The 2003 RCS also points to three main factors that may explain why workers' confidence remains relatively high, even after three years of substantial stock market decline.

Specifically, the 2003 RCS shows that 21 percent of workers feel *very* confident about having enough money to live comfortably in retirement and 45 percent feel *somewhat* confident. However, nearly a quarter (24 percent) of workers age 45 or older this year say that they plan to postpone their retirement age, up 9 percentage points from 2002 (15 percent), mainly due to financial or economic concerns.

In addition, there is a 6 percentage-point increase in the share of workers *not at all* confident that they will have enough money saved for retirement, up from 10 percent in 2002 to 16 percent in 2003.

Through most of the 1990s, the rise in the stock market was offered as the explanation why many workers were confident that they would be able to afford a comfortable lifestyle after they stopped working. Here are three factors that may help to explain why workers remain confident today:

- Many workers simply do not know how much money it takes to live comfortably in retirement; the RCS indicates that many have never tried to figure this out.
- A significant proportion of workers say they have made changes in their life to address these uncertain economic times, such as planning to work longer and saving a little more. For many, postponing retirement is the best solution as they realize that they do not have enough money saved at this point.
- Many workers have not been affected by the stock market decline, simply because they did not have that much, if any, money invested in the stock market. The bear market has had a significant effect, but it is dampened by the low investment levels of many workers.

"Our RCS data over the past decade continues to show that Americans are chronically optimistic about their retirement prospects despite a variety of market conditions, but market declines over the past few years seem to have made people more cautious," said Dallas Salisbury, CEO and president of EBRI. "The percentage of workers *very* confident about having enough money in retirement is 21 percent in 2003 versus 18 percent in 1993. Yet, the percentage of those *not at all* confident is 16 percent in 2003 versus six percent in 1993."

And as previous waves of the survey have consistently found, the 2003 RCS shows that there continues to be widespread lack of knowledge and apathy about key money management issues that could prevent millions of Americans from properly preparing for their financial future. Unless workers take a more proactive role in managing their finances and save more money for their future, many will not have adequate income to support themselves in their retirement years.

The RCS is a comprehensive study of the attitudes and behaviors of American workers and retirees toward all aspects of saving, retirement planning, and long-term financial security. The RCS contains a core set of questions that is asked annually, allowing for key attitudes and behavior patterns to be tracked over time. The RCS was first released in 1991 and is unique in its long-term ability to track public attitudes about saving and retirement.

Here are some key findings from the 2003 RCS:

- ***Plunging stock market takes a toll:*** The percentage of workers in 2003 *not at all* confident that they will have enough money saved for retirement has returned to the 2001 level (16 percent and 17 percent, respectively), after dipping to 10 percent in 2002. According to trend data collected by the RCS, this figure reached similar levels in 1994 (17 percent) and in 1996 (16 percent).
- ***Baby boomers postponing retirement:*** More workers age 45 or older say in 2003 than in 2002 that they plan to postpone their retirement age (24 percent vs. 15 percent), mainly for reasons related to financial concerns: stock market losses; the eligibility age for Social Security benefits is rising; the cost of living is higher than they expected; and they just want to make sure they are financially secure in retirement.
- ***More time spent on fun than finances:*** Both workers and retirees say they spent more time in the past year planning for holidays and social events than planning for retirement. Survey respondents say they spent four or more hours in the past year planning for the holidays (74 percent) or social events (57 percent) than planning for retirement (49 percent). In addition, more people claim they spent "no time" planning for retirement (17 percent) vs. the other three categories: vacations (12 percent); social events (6 percent); and holidays (3 percent).
- ***People are saving blindly:*** Sixty-one percent of workers and more than half (53 percent) of all worker households have not calculated how much money they will need to save by the time they retire. Thirty-six percent of those who have done a retirement calculation do not know or remember how much they will need to save by the time they retire, and two-thirds (66 percent) did a calculation more than a year ago. In addition, many who say they have done a calculation have used less-than-reliable methods such as guessing or estimating a figure based on the state of the economy or inflation.
- ***What Social Security age?*** Many of today's workers will not be eligible to receive full Social Security benefits until they are 67, but most continue to be unaware of the phased increase in the normal retirement age from 65 to 67. Fifty-one percent of current workers think they will be eligible for full benefits *before* they actually will be, and 6 percent after. Sixteen percent of workers cite the correct age.
- ***Health insurance in retirement not factored:*** Survey respondents have given *little* or *no thought* to the need for long-term care insurance for nursing home or home health care (79 percent) or the need for general health insurance coverage (56 percent).

Retirement Confidence

- RCS data over the past 10 years show that retirement confidence overall among workers is not directly related to how well the stock market is performing. Historically, the confidence numbers remain relatively unchanged throughout a variety of market conditions.
- For example, the percentage of workers who felt *very* confident about having enough money to live comfortably in retirement was 20 percent in 1994, 19 percent in 1996, 22 percent in 1999, 25 percent in 2000, 22 percent in 2001, and 23 percent in 2002 (compared with 21 percent in 2003).

- The percentage of workers who say they are *very* confident in having enough money to take care of basic expenses in retirement has also dropped slightly from 38 percent in 2002 to 33 percent in 2003. This figure tends to stay at 38 percent or higher. The last time it reached this level was in 1999 (31 percent). In 2003, this decline is particularly noticeable among baby boomers (ages 45 to 54).
- Interestingly, this year's survey finds that many American workers have not been affected by the recent stock market turmoil. Half of all workers have no stocks or stock mutual funds, either inside or outside of a workplace retirement savings plan (48 percent).

The 2003 RCS shows workers may feel confident about retirement, because they feel that they are making changes to address the current economic challenges:

- Workers overall say they expect to work longer, on average, than current retirees have worked. One-fourth of workers say they will retire at age 65 (25 percent), and another quarter intends to retire at age 66 or later (24 percent, up from 18 percent in 2002). The average worker today plans to retire at age 65, while the average retiree reports leaving the work force at age 62.
- Seventy percent of workers say they plan to work for pay after they retire, but nearly 3 in 10 (28 percent) retirees have actually worked for pay in retirement. Also, 4 in 10 retirees retired earlier than they had expected, some for reasons beyond their control. Fifty percent cited an unexpected health problem or disability, and 23 percent cited unexpected changes at their company such as downsizing or closure.

"The 2003 RCS finds that 70 percent of workers say they plan to work for pay after they retire, but only a quarter (26 percent) of the current generation of retirees have actually done so," said Mathew Greenwald, president of Greenwald. "It seems clear that post-retirement employment will go up, but a changing economy, changing employer needs, declining health, or other factors may prevent many who plan to work in retirement from actually doing so."

Retirement Expectations

- Thirty-nine percent of workers who plan to retire think they can live comfortably in retirement on less than 60 percent of their current income. Half of workers expect they will need less than 70 percent of their preretirement income to live comfortably in retirement (49 percent), and fewer than 2 in 10 anticipate needing 80 percent or more (17 percent). Many financial experts say that retirees will need at least 70–80 percent of their preretirement income to live comfortably in retirement.
- Thirteen percent of workers say Social Security will be their largest source of retirement income vs. 44 percent of current retirees who say it is actually their largest source of income. Workers are most likely to say their largest source of income in retirement will come from money provided by an employer through a pension or workplace retirement savings plan (30 percent) or personal savings (30 percent).

Calculating Your Retirement Needs Makes a Difference

- Forty percent of workers who did a retirement needs calculation made changes in their retirement planning as a result: 58 percent started saving more; 26 percent changed the allocation of their money; and fewer than 1 in 10 researched new methods of saving for retirement, started saving for the first time, and/or reduced their debt.
- Seventy-three percent of workers who say they have saved for retirement say they believe they could save an added $20 per week for retirement. Fifty-four percent of those who have not saved for retirement say it is possible for them to save $20 per week for retirement; 43 percent say it is not possible.
- Saving $20 a week equals $1,040 over the course of a year. If you save this amount for 25 years, assuming a 5 percent annual rate of return, you could have over $50,000.

"In today's market, planning for retirement may be less fun that it once was, but more important than ever," said Don Blandin, president of ASEC. "And retirement planning guarantees a big payoff for those willing to do the work and put in the time."

Over 100 financial planning calculators and interactive tools, including the ***Ballpark Estimate*** pre-retirement planning worksheet, ***Retiree Health Savings Calculator***, and the ***Retirement Personality Profiler,*** as well as video and audio educational messages, are available at **www.choosetosave.org**, a Web site developed for the general public to aid in savings education and retirement planning.

These findings are part of the 13th annual Retirement Confidence Survey (RCS), a survey that gauges the views and attitudes of working-age and retired Americans regarding retirement, their preparations for retirement, their confidence with regard to various aspects of retirement, and related issues. The survey was conducted in January 2003 through 20-minute telephone interviews with 1,000 individuals (782 workers and 218 retirees) age 25 and older in the United States. Random digit dialing was used to obtain a representative cross section of the U.S. population. Starting with the 2001 wave of the RCS, all data are weighted by age, sex, and education to reflect the actual proportions in the adult population. In this year's report, data for the previous waves of the RCS have also been weighted to allow for consistent comparisons; consequently, some data in the 2003 RCS may differ slightly from data published in previous waves of the RCS.

In theory, each sample of 1,000 yields a statistical precision of plus or minus three percentage points (with 95 percent certainty) of what the results would be if all Americans age 25 and older were surveyed with complete accuracy. There are other possible sources of error in all surveys, however, that may be more serious than theoretical calculations of sampling error. These include refusals to be interviewed and other forms of nonresponse, the effects of question wording and question order, and screening. While attempts are made to minimize these factors, it is impossible to quantify the errors that may result from them.

The 2003 RCS data collection was funded by grants from 25 public and private organizations, with staff time donated by EBRI, ASEC, and Greenwald. RCS materials and a list of underwriters may be accessed at the EBRI and ASEC Web site: www.ebri.org/rcs and www.asec.org

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