Increased Saving but Little Planning: Results of the 1997 Retirement Confidence Survey

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Issue Brief

- The 1997 Retirement Confidence Survey (RCS) focuses on American workers' retirement planning and saving behavior. It also examines their confidence regarding various aspects of retirement, as well as their views on key policy issues. It explores current retirees' attitudes and experiences, providing context for today's workers' actions and attitudes. This *Issue Brief* discusses the 1997 RCS findings.
- One-third of workers would like to retire at age 55 or younger.
- Fifty-one percent of workers expect personal saving to be their most important source of retirement income.
- Three-quarters of workers have no idea regarding how much money they need to accumulate for retirement.
- Twenty-five percent of workers are very confident that they will have enough money to live comfortably throughout retirement, 43 percent are somewhat confident, and 30 percent are not confident.
- Among those who are very confident in their personal financial preparations for retirement, relatively few (55 percent) have done a retirement saving needs calculation.
- Sixty-nine percent of workers report having money saved for retirement.
- Seventy-six percent of workers offered a 401(k) or similar retirement saving plan contribute to the plan. Of these, only 65 percent know the maximum that they are allowed to contribute, and of these, less than one-half contribute the maximum.
- Twenty-four percent of retirees report that their standard of living is worse now than at the end of their working career.
- Twenty-three percent of retirees are not confident that they will have enough money to live comfortably throughout retirement.
- Many Americans do not understand the debate over Social Security's financial condition. Thirty percent incorrectly believe that "trust fund exhaustion" means the system will be completely broke and unable to pay any benefits (in addition, 12 percent responded that they do not know).
- Assuming that adjustments must be made to Social Security, respondents were forced to choose between increased payroll taxes or reduced benefit levels; 63 percent chose increased taxes and 32 percent chose decreased benefits.
- The primary lesson from the 1997 RCS is that workers need to be motivated beyond current levels to *plan financially* for their retirement and then save accordingly.

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This *Issue Brief* was written by Paul Yakoboski of EBRI with assistance from Jennifer Dickemper of Mathew Greenwald & Associates, Inc. and the Institute's research and editorial staffs. Any views expressed in this article are those of the author and should not be ascribed to the officers, trustees, members, or other sponsors of EBRI, EBRI-ERF, or their staffs. Neither EBRI nor EBRI-ERF lobbies or takes positions on specific policy proposals. EBRI invites comment on this research.

The 1998 Retirement Confidence Survey

We are currently enlisting the support of organizations that are interested in sponsoring the 1998 EBRI/Greenwald/ASEC Retirement Confidence Survey. Sponsorship includes the opportunity to provide input into the survey design and content; sponsors will receive a copy of the full report and raw survey data. Please contact EBRI Research Associate Paul Yakoboski at (202) 775-6329 for more information or to sign up as a sponsor.

"If you don't know where you're going, you will end up somewhere else."

—Yogi Berra

Introduction

According to the 1997 Retirement Confidence Survey[1] (RCS) Americans would like to retire, and retire early, but making that dream a reality may elude many. The path ahead for those who do not plan and save can be perilous, and at some level Americans know it. They also know that Social Security and Medicare alone will not cover their needs. However, finding the will and means to make the necessary financial arrangements is hard at all ages and income levels. Yet, as the RCS shows, the consequences of not planning ahead can be seen in the experiences of current retirees, many of whom are finding retirement financially difficult.

The nature of retirement may also be changing. According to the RCS, Americans are beginning to see retirement not simply as a time when they lie back and relax, but as a time when they pull back from the rigors of a full-time career to work part time while simultaneously enjoying some of the fruits of their labor. This affects how people view retirement income and where they see it originating.

Furthermore, there are differences between men and women and across generations in terms of how workers view retirement—for example, where they expect their money to come from during retirement. In addition, gender and generational differences exist in terms of current planning and preparation for retirement and in degrees of confidence regarding future retirement income security.

The 1997 RCS, co-organized by the Employee Benefit Research Institute (EBRI), Mathew Greenwald and Associates (MGA), and the American Savings Education Council (ASEC), and sponsored by various private organizations, focuses on American workers' retirement planning and saving behavior. It also examines their confidence regarding various aspects of retirement, as well as their views on key policy issues such as Social Security and Medicare reform. In addition, it explores current retirees' attitudes and experiences, providing further context for today's workers' actions and attitudes. This is the seventh year the RCS has been conducted.

This *Issue Brief* discusses these issues and other findings from the 1997 RCS. It also draws on findings from retirement surveys conducted by other organizations to paint as complete a picture as possible of what is known regarding these issues.

The primary lesson from the 1997 RCS for policymakers, retirement plan sponsors, and plan service providers is that workers need to be motivated beyond current levels to *plan financially* for their retirement. While almost 70 percent of working Americans have begun to save for retirement, at least three-quarters of workers do not have a good idea of how much they need to save for their retirement. Most have not even tried to determine the amount they will need. We have done a good job of creating savers, but future retirement income security will depend on creating goal-oriented planners who then save accordingly. The task will not be easy; many workers see no value in such efforts because they do not feel they could save more, and besides, retirement is so far away. Moreover, at a deeper level, some simply want to hide from reality and hope things will work out.

However, there are reasons to be optimistic. When it comes to their retirement income security, most workers believe the buck stops with them, not their employer and not Uncle Sam. As mentioned, most have begun to save for retirement. Moreover, evidence is mounting that retirement education campaigns can influence individual behavior. The overwhelming majority of workers do take advantage of educational material when it is provided by their employer, with the result

[1] The Retirement Confidence Survey (RCS) is an annual survey that gauges the views and attitudes of working and retired Americans regarding retirement, their preparations for retirement, their confidence with regard to various aspects of retirement, and related issues. The 1997 RCS randomly surveyed 1,001 individuals (772 workers and 229 retirees) by telephone in July 1997. Random digit dialing was used to obtain a representative cross-section of the U.S. population.

that many adjust their behavior, e.g., change their contribution levels or asset allocations in retirement saving plans.

To some, "more and better" education may seem a simple-minded answer to a complex issue. But better answers are not readily apparent. Furthermore, in an era when workers have more tools at their disposal to plan for retirement and more vehicles available to save for retirement, in many instances on a tax-preferred basis, education may be the best answer if one takes a long-term perspective and avoids the temptation of seeking the silver-bullet, quick-fix solution.

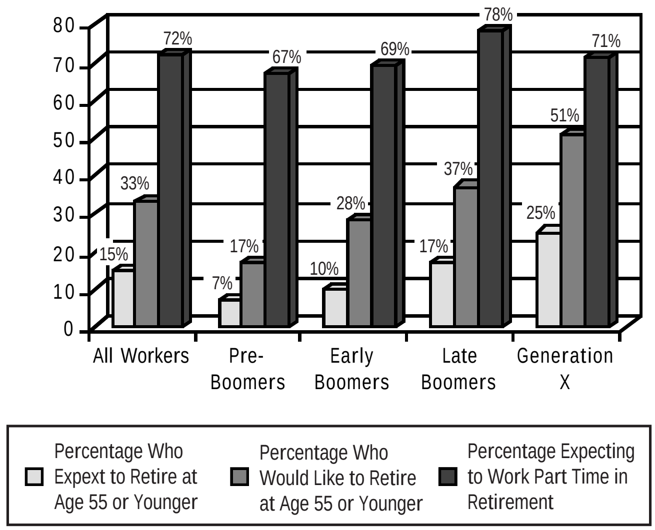
Plans and Dreams

Americans are dreaming of early retirement. According to the 1997 RCS, one-third of current workers would like to retire at age 55 or younger, and two-thirds would like to retire before age 65. Among pre-boomers, 17 percent would like to retire at age 55 or younger; among early boomers, 28 percent would like to retire in this age range; 37 percent of late boomers and 51 percent of generation X'ers would like to retire at 55 or younger (chart 1).[2]

Other Surveys Find: A 1997 PaineWebber/Gallup survey of investors (households with savings of at least $10,000) found that 35 percent of savers want to retire by age 55.

At the same time, many expect to work during retirement, which could signal a change in what it means to be "retired." Seventy-two percent of current workers expect to work part time in retirement. Among pre-boomers, this figure is 67 percent; among early boomers, 69 percent; late boomers, 78 percent; and generation X'ers, 71 percent (chart 1). For some, but not most, money does appear to be a significant source of motivation; in the RCS, 20 percent of current workers expect employment to be a major source of income during their retirement (9 percent expect it to be the most important source).

Chart 1
Retirement Expectations Among Current Workers



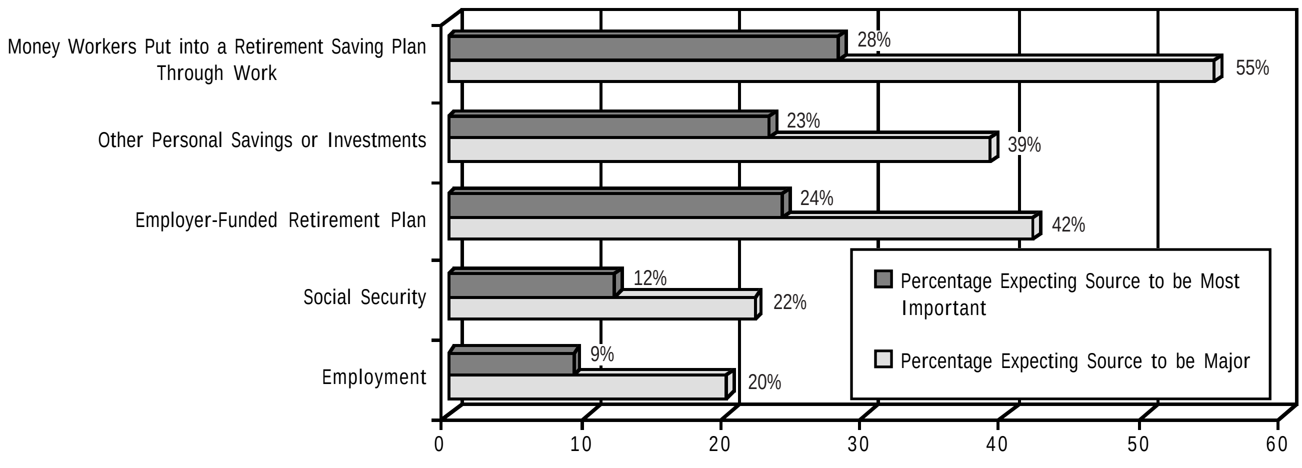
Source: 1997 Retirement Confidence Survey.

Other Surveys Find: The PaineWebber/Gallup survey found 61 percent of investors planning to work after retirement, with 13 percent saying it will be primarily for the money. Different findings emerged from a Kemper-Roper study, in which 59 percent of respondents expected to have to work in retirement for financial reasons, and a study by Scudder and the National Center for Women and Retirement Research (NCWRR) found that 43 percent of boomers with incomes over $30,000 expect to have to work in retirement (and 20 percent are not planning to retire at all).

What do current workers expect to be their income sources in retirement? According to the RCS, most current workers are looking toward their own savings (chart 2). Fifty-five percent expect personal savings through a retirement plan at work to be a major source of retirement income and 39 percent expect other personal saving to be a major source. Slightly more than one-half (51 percent) expect some form of personal saving

[2] *Pre-boomers consist of those born in 1945 or earlier; these individuals are currently ages 53 and older. Early boomers consist of those born during the period 1946–1953; these individuals are currently ages 45–52. Late boomers consist of those born during the period 1954–1964; these individuals are currently ages 34–44. Generation X consists of those born in 1965 or later; these individuals are currently ages 33 or younger.*

Chart 2
Expected Retirement Income Sources Among Current Workers



Source: 1997 Retirement Confidence Survey.

to be their most important source of retirement income (chart 2). Examining the data by generation, shows that this is true for 42 percent of pre-boomers, 37 percent of early boomers, 55 percent of late boomers, and 61 percent of generation X'ers. Fifty-two percent of male workers and 50 percent of female workers expect some form of personal saving to be their most important source of retirement income (chart 3a–f).

Other Surveys Find: In a recent survey by Public Agenda and Fidelity Investments, 60 percent of respondents said that individuals, not government and employers, have primary responsibility for retirement security. Similarly, in a 1997 Merrill Lynch survey, 71 percent of Americans said that individuals are primarily responsible for their retirement income security, and not the government or employers.

Planning or Lack Thereof

Despite the fact that many workers would like to retire relatively early and the fact that most workers expect personal saving to be a major source of income once they are retired, 37 percent of current workers report having given little or no thought to their retirement, according to the RCS. While high, this percentage does represent an improvement over current retirees, among whom 52 percent gave little or no thought to retirement while working.

Other Surveys Find: In a 1996 survey by the American Council of Life Insurance (ACLI), 41 percent of nonretirees reported not having begun to think about retirement finances and in the Kemper-Roper Retirement study, 26 percent of respondents reported not having given any serious thought to retirement.

Only 36 percent of current workers have tried to determine how much they need to save by retirement to fund a comfortable retirement (this figure is up slightly from 32 percent in 1996). Forty-four percent of pre-boomers have done such a retirement saving needs calculation, compared with 38 percent of early boomers, 32 percent of late boomers, and 30 percent of generation X'ers. Thirty-nine percent of men have done a retirement saving needs calculation, compared with 32 percent of women. Out of the 36 percent of current workers who have done the calculation, 24 percent cannot give a figure when asked. This means that roughly three-quarters of *all* current workers have *no* idea regarding how much they need to save and accumulate for retirement (chart 4).

Other Surveys Find: The Scudder/NCWRR study found that only 21 percent of respondents had a nest-egg goal. A recent survey by the Consumer Federation of America and NationsBank found that only one-third of savers had a comprehensive financial plan. In addition, even among planners only 48 percent had calculated what they need to maintain their standard of living in retirement. The study also found that having a plan affected saving levels more than knowledge of saving and investment principles.

Chart 3a

Expected Most Important Source of Retirement Income, Pre-Boomers, 1997

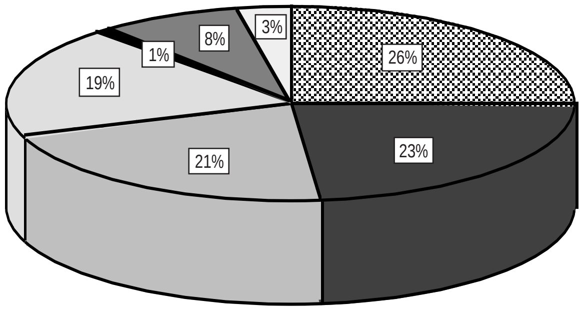


Chart 3b

Expected Most Important Source of Retirement Income, Early Boomers, 1997

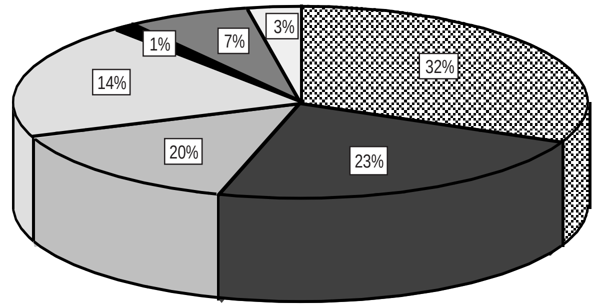


Chart 3c

Expected Most Important Source of Retirement Income, Late Boomers, 1997

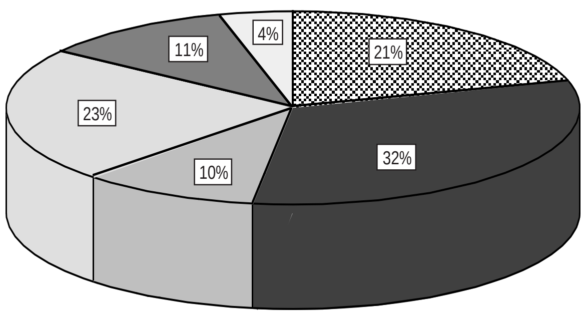


Chart 3d

Expected Most Important Source of Retirement Income, Generation X, 1997

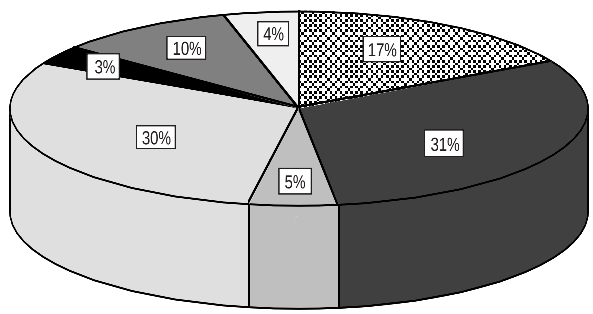


Chart 3e

Expected Most Important Source of Retirement Income, Males, 1997

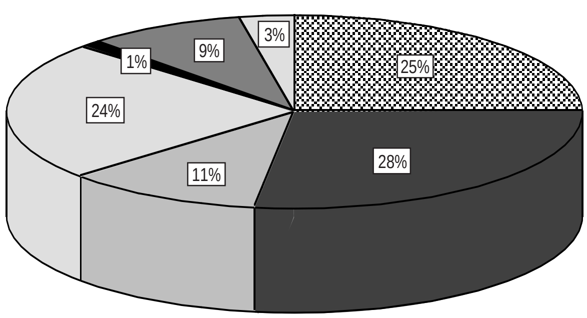
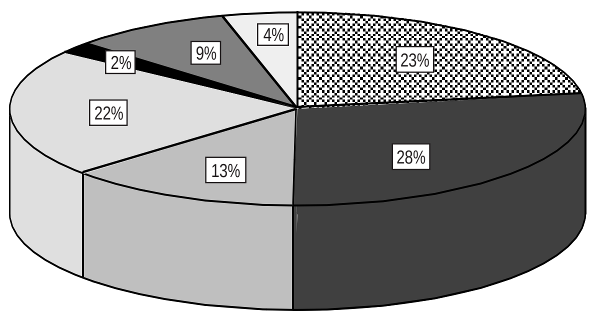


Chart 3f

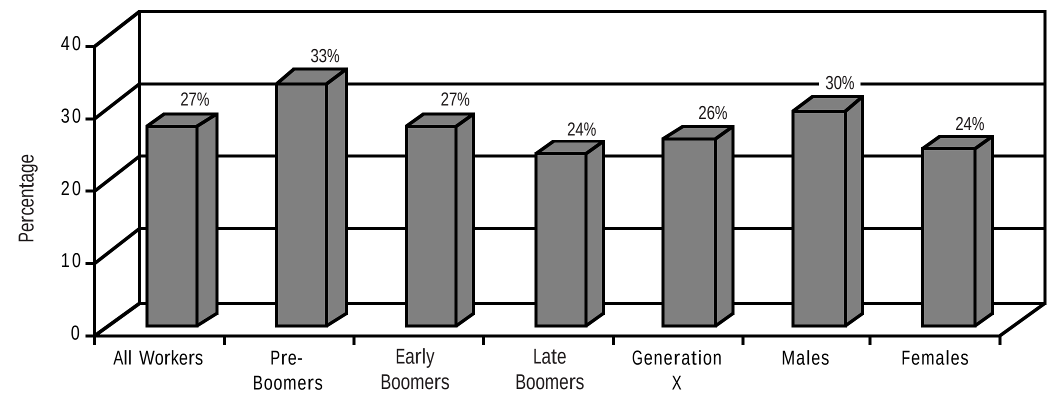
Expected Most Important Source of Retirement Income, Females, 1997



- Money Provided by Employer
- Money You Put into Savings/ Retirement Plans through Work
- Social Security
- Other Personal Savings/ Investments
- Support from Children or Other Family
- Part-Time or Full-Time Employment
- Don't Know

Source: 1997 Retirement Confidence Survey.

Chart 4
Workers With a Retirement Savings Goal



Source: 1997 Retirement Confidence Survey.

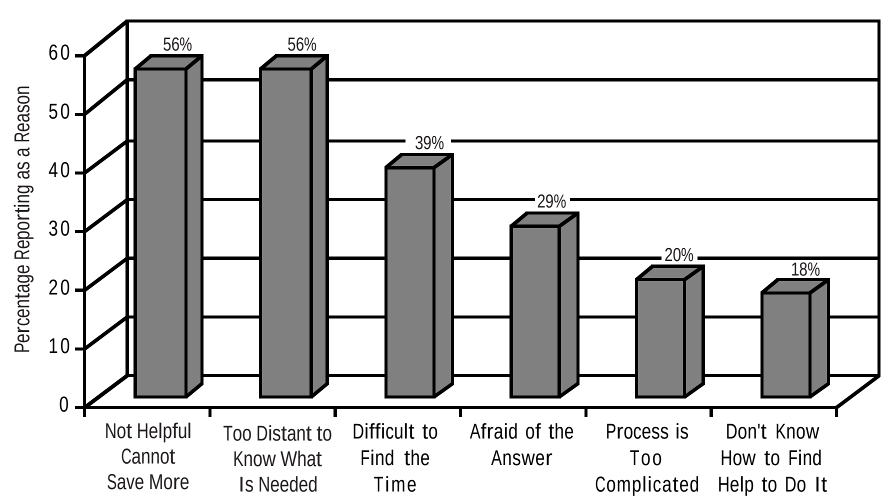
The implications of such a lack of planning are that dreams and expectations may go unfulfilled for many. Workers may already have a sense that this will be the case. While 33 percent would like to retire at age 55 or younger, only 15 percent expect to retire then (chart 1). Similarly, while 65 percent would like to retire before age 65, only 45 percent expect to retire then.

When such retirement savings needs calculations are undertaken, the most commonly used source of information is books and articles, followed by a professional advisor. Employer-provided financial planning worksheets and information tie for third, followed by friends/relatives/co-workers. Of the sources asked about, computer software/programs were by far the least frequently used, but this is likely to change in the future.

Other Surveys Find: In the ACLI study, among individuals who had focused on retirement, over one-half expressed a preference to receive information through written materials and face to face discussion, 23 percent said computer software, and 23 percent said on-line.

The RCS asked workers who had not attempted the calculation—why not? "It will not be helpful because I cannot save any more than I am currently saving" was cited as a reason by 56 percent of respondents (chart 5) and as the most important reason by 31 percent. Women were more likely to cite this as their most important reason (34 percent, compared with 28 percent of men).

Chart 5
Why Workers Have Not Done a Retirement Savings Needs Calculation



Source: 1997 Retirement Confidence Survey.

Other Surveys Find: The Public Agenda/Fidelity study found that 68 percent of respondents admitted that they could save more for retirement if they really tried. The Kemper-Roper survey found that only 11 percent of respondents strongly agreed that they are prepared to spend less today to save more for retirement (44 percent somewhat agree). A recent study by AARP found that 40 percent of low-income pre-boomers (ages 45–52) felt that their lack of income was not insurmountable as a problem in saving for retirement.

The reason cited second most often as most important for not doing a retirement savings needs calculation was, "It is too far in the future to know what will be needed" (26 percent). Men were more likely than women to cite this as being their most important reason (31 percent, compared with 21 percent of women). While a form of denial, there is justification in that it does not make sense to attempt to be too precise too early in a working career when it comes to planning for retirement. But it is sensible to develop a ballpark estimate of what is needed and how much needs to be saved to achieve that goal. Then such planning can be revisited every year or two and estimates can be refined in terms of increased precision as workers age and approach retirement.

Difficulty in finding the time was cited by 39 percent as a reason for not doing the calculation, but only 17 percent said it was the most important reason (chart 5). Being afraid of the answer was reported by 29 percent as a reason, albeit not most important, for not doing the calculation. Women were more likely than men to cite this as being a reason for not doing the calculation (34 percent vs. 23 percent). Twenty percent of all workers cited as a reason that the process is too complicated, with men more likely than women to cite this reason (23 percent versus 16 percent).

Among those who have done the calculation and responded with a figure for what they need to save for a comfortable retirement, 22 percent responded less than $250,000, 39 percent responded $250,000–$999,999, and 38 percent responded $1 million or more.

Other Surveys Find: In the PaineWebber/Gallup survey, 26 percent of investors reported needing $1 million or more, 48 percent responded $200,000–$999,999, and 26 percent said less than $200,000.

To put these numbers in perspective, assume a single man, age 65, purchases a life annuity *today*.[3] With $250,000, he could purchase a *nominal* monthly annuity for life of $2,214. With an annual inflation rate of 4 percent, this monthly annuity would be worth $1,496 in 10 years and $1,011 in 20 years. With $1 million, he could purchase a *nominal* monthly annuity for life of $8,856. Again assuming a 4 percent annual inflation rate, this would be worth $5,984 in 10 years and $4,044 in 20 years.

Retirement Confidence

Not Me, But You

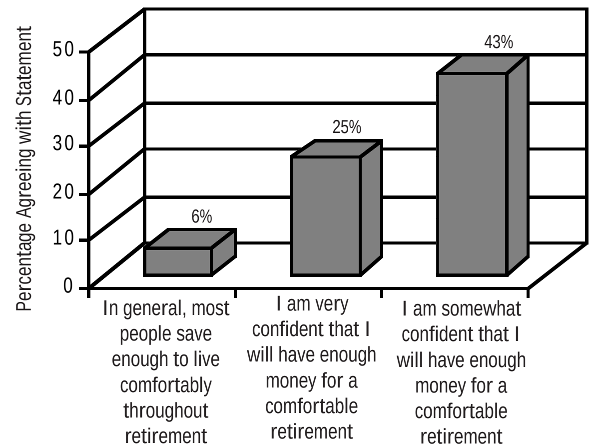
Only 6 percent of all Americans (both workers and retirees) believe that, in general, people in the United States save enough money to live comfortably throughout retirement. While the absolute magnitude of this number may be surprising, the fact that such a sentiment is widespread among the population should not be. In 1991, 7 percent of Americans felt this way, and since that time the number has consistently hovered in that range.

What is surprising is the "not me, but everyone else" attitude expressed by many current workers (chart 6). When asked how confident they are that *they* will have enough money to live comfortably throughout their retirement years, 25 percent of workers are very confident, 43 percent are somewhat confident, 17 percent are not too confident, and 13 percent are not at all confident.

[3] *Assume $9.41 buys an annuity of $1/year payable monthly (McGill, 1996).*

Chart 6

Workers: I'm Okay, You're Not



Source: 1997 Retirement Confidence Survey.

Other Surveys Find: The Merrill Lynch survey found that 19 percent of workers consider themselves very well prepared for retirement, 51 percent somewhat prepared, 15 percent not too prepared, and 15 percent not at all prepared. The John Hancock survey found 32 percent of 401(k) participants were not concerned about not having enough money in retirement, 45 percent were somewhat concerned, and 23 percent were very concerned. The Kemper-Roper study found that 29 percent of respondents were absolutely delighted or pleased with the money they have saved and/or will save for retirement, and 30 percent were somewhat satisfied, leaving 41 percent as not satisfied.

More Confident, Less Confident

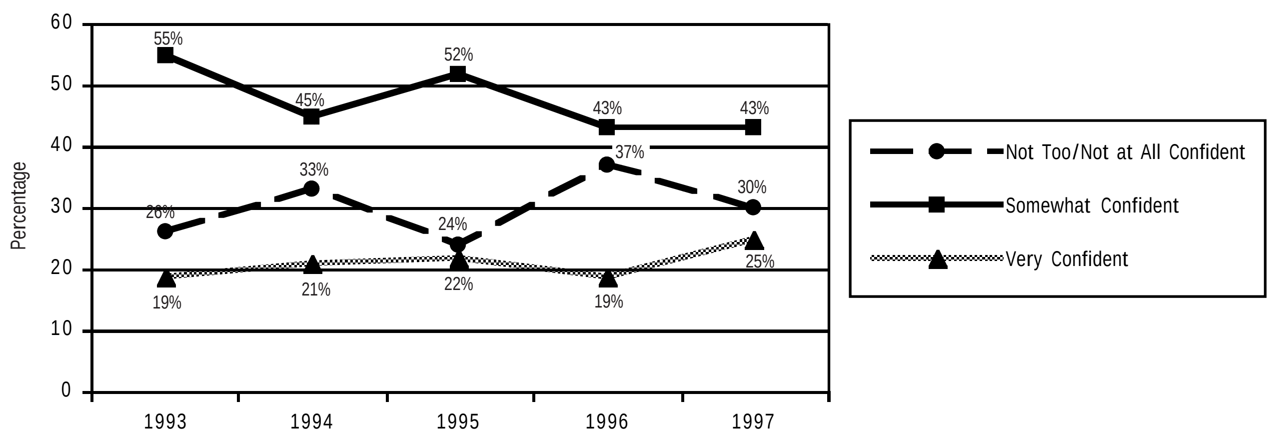
Over the past five years, American workers have grown more confident about their overall retirement income prospects. At the same time, American workers have grown less confident about their overall retirement income prospects. Both of these statements are true. The fraction of workers who are very confident in their retirement income prospects has risen from 19 percent in 1993 to 25 percent in 1997, while at the same time the fraction not confident has risen from 26 percent to 30 percent (chart 7).

Those somewhat confident have decreased over time. These are individuals who are really unsure; if everything goes okay and they encounter no surprises, then they think their retirement will turn out okay. Otherwise, they feel they will be in trouble. As more workers develop a clearer feeling on the issue and move from the ranks of the unsure, they do not all move in the same direction; some become very confident and some become not confident.

It is also interesting to note that there is a strong correlation between the fraction who are not confident and election years. In even years, the fraction who are not confident spikes upward and in odd years it

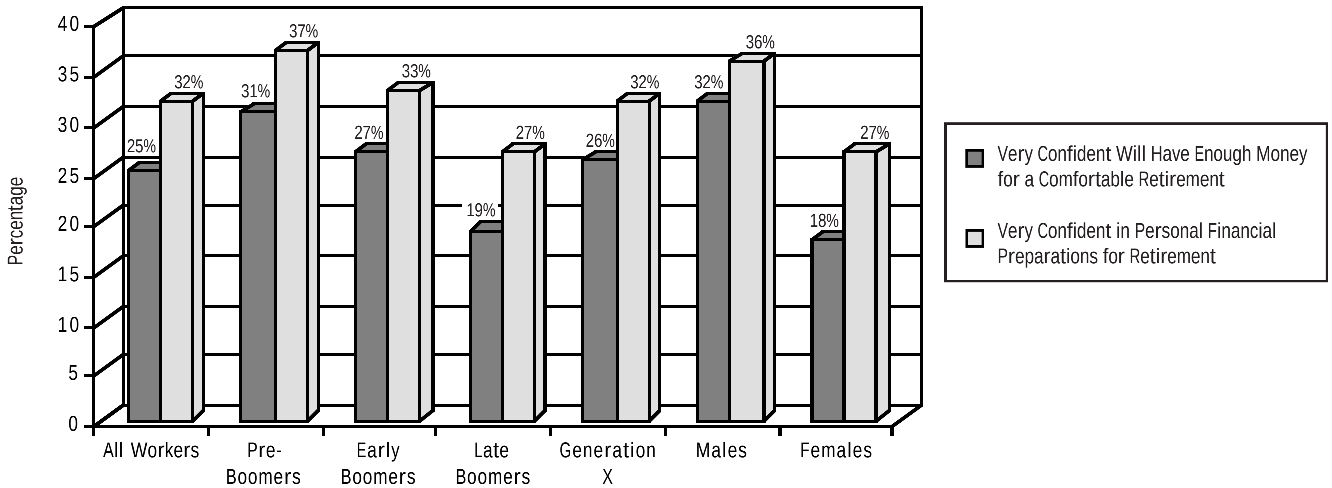
Chart 7

Workers' Confidence in Their Overall Retirement Income Prospects



Source: 1997 Retirement Confidence Survey.

Chart 8
Overall Confidence versus Personal Preparation Confidence



Source: 1997 Retirement Confidence Survey.

spikes downward. In past cycles this movement tended to be predominantly into and out of the somewhat confident group. However, the change between 1996 and 1997 was on net completely a movement from the fraction who are not confident to the fraction who are very confident. This latter occurrence may be explained by the strong performance of equity markets during that time period.

Despite the trends, the relative ranking remains unchanged over the five years. Most workers are somewhat confident, followed by those who are not confident, while those who are very confident account for the fewest workers.

Confidence in Personal Preparation

Interestingly, 32 percent of workers are very confident that they are doing a good job of preparing financially for retirement, 44 percent are somewhat confident, 14 percent are not too confident, and 9 percent are not confident that they are doing a good job of preparing financially for retirement. Therefore, confidence in personal financial preparation is greater than overall confidence in retirement finances (chart 8). This holds across generations. The implication is that people worry that circumstances they view as beyond their control, such as unforeseen medical expenses and/or cutbacks in Social Security and Medicare, may have negative financial consequences for their retirement.

Confidence in personal financial preparation is generally lower the younger the worker. Late boomers are the least likely to be very confident in their financial preparations for retirement (27 percent), and generation X'ers are the most likely to be not at all confident in their financial preparations (12 percent).

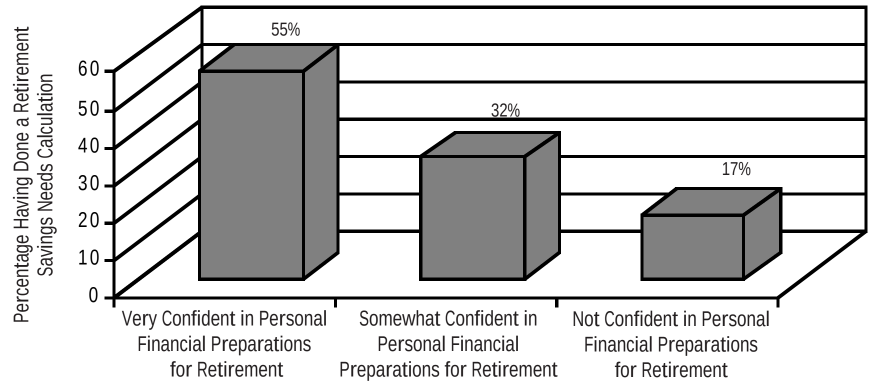
Men tend to be more confident than women. Thirty-two percent of men are very confident in their overall retirement income prospects, compared with 18 percent of women; in addition, 34 percent of women are not confident in this regard, compared with 27 percent of men. In terms of personal financial preparations for retirement, 36 percent of men are very confident in what they are doing, compared with 27 percent of women.

Other Surveys Find: The Public Agenda/Fidelity study found that 53 percent of Americans ages 22–61 rate their retirement preparations as fair or poor, and that 76 percent believe they should be saving more for retirement. The Kemper-Roper study found that only 14 percent of respondents strongly agreed with the statement that they are planning well for retirement.

False Confidence?

Even among workers who are confident, the question remains: is this confidence justified? Interestingly, the aggregate data show a strong correlation between the percentage who are confident in their financial preparations for retirement (33 percent) and the percentage who have done a retirement savings needs calculation (32 percent). But are they the same people? Further analysis reveals that even among those who are very confident in their personal financial preparations for retirement, relatively few (55 percent) have done a retirement saving needs calculation (chart 9). Not

Chart 9
False Confidence?



Source: 1997 Retirement Confidence Survey.

surprisingly though, the likelihood of having done such a calculation is even lower among those who are somewhat confident (32 percent) and those who are not confident (17 percent).

Examining the same numbers from a different angle reveals that among those who have done a saving needs calculation, 49 percent are very confident in their personal financial preparations, 39 percent are somewhat confident, and 11 percent are not confident. While confidence is higher than among those who have not done such a calculation (22 percent very confident), this demonstrates that doing the calculation is only a first step and in itself does not generate personal confidence. Apparently, some may even have their confidence shaken by such an exercise, and this is probably beneficial for many. Once the calculation has been completed, a savings plan is needed to achieve the target.

Other Aspects of Confidence

While current workers are not worried about covering basic living expenses in retirement (44 percent are very confident, and only 14 percent are not confident in this regard), many are worried about having enough money to pay for desired recreational, travel, and entertainment pursuits, i.e., the rewards for a working career that many associate with a "good" retirement. Twenty-five percent are very confident, while 29 percent of workers are not confident in this regard. In addition, workers worry about medical expenses; 24 percent are very confident, while 36 percent are not confident that they will have enough money to take care of their medical expenses in retirement.

Other Surveys Find: The Public Agenda/Fidelity study found that 74 percent of Americans expect health care costs to pose a problem in retirement.

Not surprisingly, overall confidence levels are highly correlated with income levels among current workers (table 1). Among those with household incomes under $25,000, 10 percent are very confident and 59 percent are not confident that they will have enough money to live comfortably throughout retirement. Among those with household incomes of $75,000 or more, 41 percent are very confident and 13 percent are not confident. Among those who have already begun to save for retirement, 30 percent are very confident and 21 percent are not confident. This compares with 14 percent and 51 percent, respectively, for those who have not yet put aside any retirement savings (table 1).

Comparing current workers across generations, late boomers show the lowest levels of overall retirement confidence and pre-boomers appear to be most confident. Men tend to be more confident than women. Whites are more confident than nonwhites. Workers in the Midwest appear to be most confident, while workers in the West appear to be least confident (table 1).

Retirement Today

The experiences of current retirees provide valuable lessons for current workers and should serve as calls to action for them—don't expect a comfortable retirement to just happen. There seems to be a popular perception among many that retirement is a carefree existence of golf, travel, and time spent with the grandchildren. While many do aspire to this and many do achieve it, the RCS again found that a sizeable minority of current retirees are experiencing a retirement that is financially troubled. While 25 percent of all retirees report that their standard of living has improved

Table 1
Workers' Confidence in Having Enough Money for a Comfortable Retirement

	Very Confident	Somewhat Confident	Not Too Confident	Not At All Confident	Don't Know/ Refused
			Percentage		
Total	25%	43%	17%	13%	1%
Gender					
Male	32	40	16	11	2
Female	18	47	19	15	1
Region					
Northeast	26	43	19	11	1
South	24	44	20	11	1
Midwest	26	45	12	14	3
West	27	37	20	16	0
Race					
White	27	44	16	11	1
Nonwhite	18	41	22	18	1
Household Income					
Under $25,000	10	29	29	30	3
$25,000–$34,999	16	46	17	18	2
$35,000–$49,999	19	52	16	12	2
$50,000–$74,999	39	39	16	5	0
Over $75,000	41	47	10	3	0
Personal Savings					
Have saved	30	48	15	6	4
Have not saved	14	32	24	27	6
Generation					
Pre-boomer (1945 or earlier)	31	36	19	13	1
Early boomer (1946–1953)	27	46	14	12	1
Late boomer (1954–1964)	19	47	18	13	2
Generation X (1965 or later)	26	41	20	12	1

Source: 1997 Retirement Confidence Survey.

in retirement, another 24 percent report that their standard of living is worse now than it was at the end of their working career.

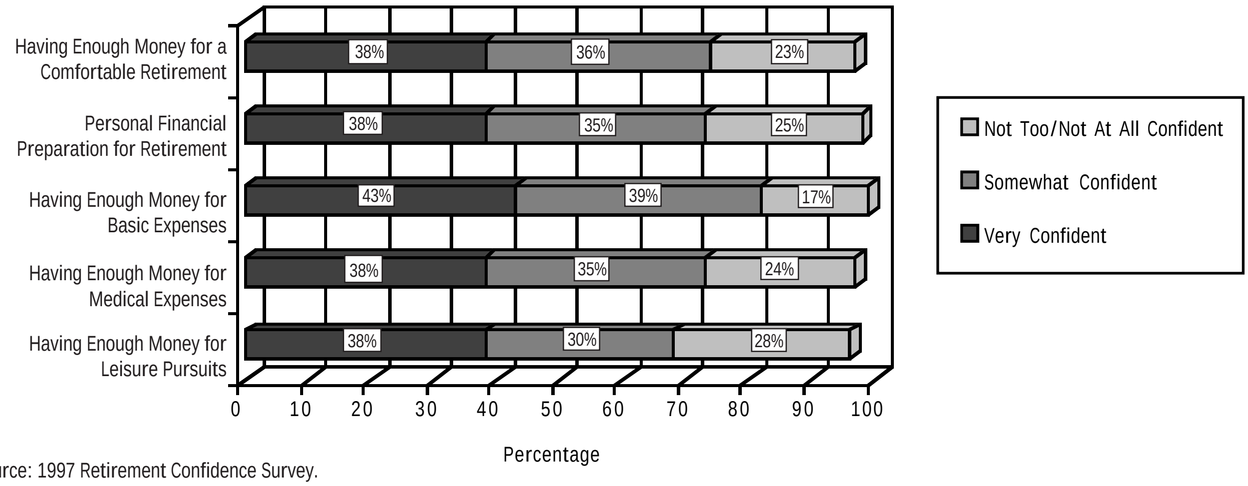
In addition, while 38 percent of retirees are very confident that they will have enough money to live comfortably throughout their retirement, 23 percent are not confident. Other areas where a substantial minority of retirees have some financial worries include: having enough money to cover medical expenses, having enough money to cover desired leisure pursuits, and simply being confident that they did a good job in their financial preparations for retirement (chart 10).

When asked to compare experience with expectations, 16 percent of retirees report that their actual standard of living in retirement has been worse than they expected when they retired. Twenty-four percent report that their experience has been worse than expectations in terms of having enough money for desired travel, recreation, and entertainment expenses. Thirty percent report that their health has been worse than expected, but only 16 percent said that their experience in terms of having enough money to cover medical expenses has been worse than expected.

Forty-four percent of retirees retired *earlier* than they had planned. For many, this appears to have been in some sense forced on them. Sixty-five percent cited changes at their company such as downsizing or closure, and 41 percent cited heath reasons. On the other hand, 62 percent reported that it was because they could afford to retire earlier than planned. In some cases, this could be the direct result of receiving early retirement buyouts in instances of company downsizing. It is interesting to note that among early retirees who reported that they could afford to retire early, 30 percent have seen their standard of living decline since they retired, and 36 percent are now not confident that they will have enough money to remain comfortable throughout retirement.

Of the 23 percent of retirees over age 65 who have worked since turning 65, 56 percent cited wanting more money to buy "extras" as a reason. Only 2 percent reported that it was because they needed more money to help make ends meet. Three-quarters said they wanted to try a different career.

Chart 10
Retiree Confidence Levels



Source: 1997 Retirement Confidence Survey.

Saving Today

Sixty-nine percent of workers report having money saved for retirement that was accumulated on a regular basis. Younger generations were less likely to have retirement savings, but even among generation X'ers, 65 percent report having such savings. The figure for pre-boomers is 76 percent. Men and women are equally likely to have retirement savings.

Among pre-boomers who responded to a separate question in the RCS regarding the amount held in retirement savings plans (including employer contributions), 31 percent reported retirement accumulations of over $100,000, 18 percent reported accumulations of $50,000–$100,000, 32 percent reported $10,000–$50,000, 8 percent reported accumulations under $10,000, and 11 percent reported having nothing.

The distribution among early boomers is very similar to that of pre-boomers. Twenty-seven percent have retirement accumulations of over $100,000, 19 percent reported $50,000–$100,000, 31 percent reported $10,000–$50,000, 12 percent reported less than $10,000, and 12 percent reported nothing.

Twenty-five percent of generation X'ers and 15 percent of late boomers reported no retirement accumulations. Twenty-six percent of X'ers and 20 percent of late boomers reported amounts under $10,000. Thirty percent of X'ers and 43 percent of late boomers reported amounts of $10,000–$50,000, and 19 percent of X'ers and 13 percent of late boomers reported amounts of over $50,000.

Saving Through Work

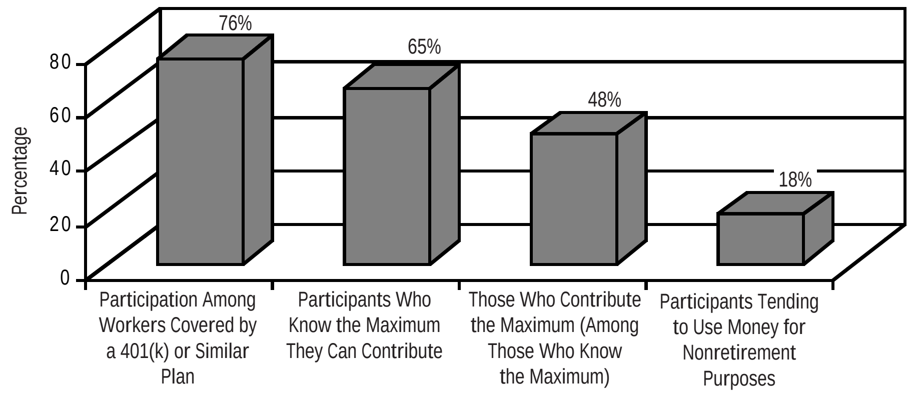
According to the RCS, 76 percent of workers offered a 401(k) or similar retirement saving plan at work contribute to the plan. Of these, however, only 65 percent know the maximum that they are allowed to contribute, and of these, less than one-half (48 percent) contribute the maximum (chart 11). Among those not contributing at all to an available plan, the top three reasons cited were inability to afford to save, saving for other goals, and the difficulty in withdrawing funds. Nonparticipating men were more likely to cite saving for other goals as a reason (38 percent versus 26 percent for women), while women were more likely to cite inability to afford to save (55 percent versus 40 percent for men).

Other Surveys Find: The Merrill Lynch survey found that only 38 percent of 401(k) plan participants contribute the maximum allowed and a John Hancock survey found that 40 percent of 401(k) plan participants were maxing-out.

Only 18 percent of 401(k) or similar plan participants report that they intend to tap into this retirement savings for purposes other than retirement, such as borrowing to purchase a house (chart 11). Younger workers were more likely to report such intentions. Twenty-eight percent of late boomers and 20 percent of generation X'ers intend to tap into their retirement savings, compared with 11 percent of early boomers and 8 percent of pre-boomers.

Two-thirds of plan participants report that their employer has provided them with educational material or seminars regarding the plan in the past 12 months, and the vast majority, 86 percent, report using the

Chart 11
Worker Usage of 401(k) and Similar Plans



Source: 1997 Retirement Confidence Survey.

material and/or attending the seminar. Worker education programs do appear to influence individual behavior. First, 45 percent of those using the educational material report that it led them to begin contributing to the plan. In addition, the RCS found that among users of educational material, 49 percent report that it lead them to reallocate their money among the investment options offered, and 38 percent said that it led them to change the amount they contributed to the plan (chart 12).

Other Surveys Find: In a Rogers Casey/Institute of Management and Administration (IOMA) survey, 75 percent of responding 401(k) plan sponsors said that participation rates in their plan increased due to participant communication.

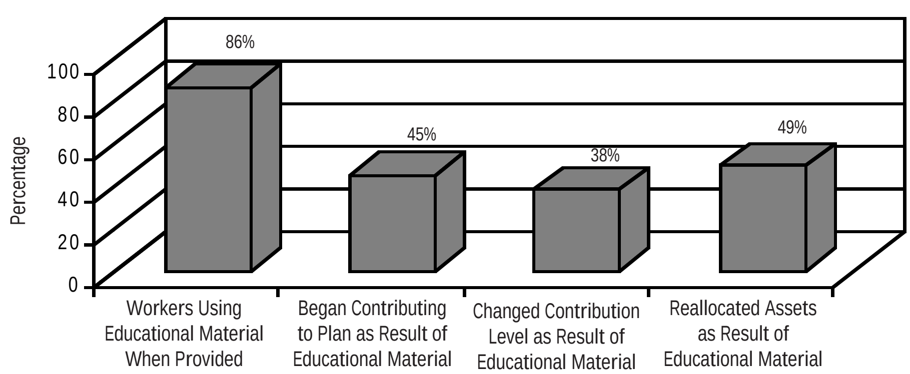
RCS participants were also asked about the usefulness of various sources of information in making their participation, contribution, and investment decisions. Participants report their employer and/or plan service provider as the most helpful sources of information. The next most helpful source of information is a financial professional, followed by spouse/friends/co-workers, and finally newspapers and magazines. The least useful or unused information sources are computer software/internet/on-line services, followed by radio or television.

Other Surveys Find: According to a recent American Express FES Education Survey, 85 percent of consumers prefer to obtain information, including information on financial topics such as retirement, through the workplace.

Lump-Sums and Rollovers

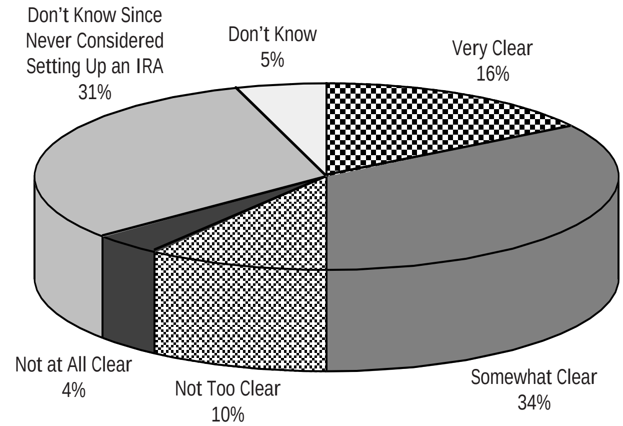
What do workers do with their retirement savings when they change jobs? From a retirement income security perspective, such saving is for naught if the money does not make it to retirement.

Chart 12
Worker Education in Retirement Plans



Source: 1997 Retirement Confidence Survey.

Chart 13
Perceived Clarity of Individual Retirement Account (IRA) Rules



Source: 1997 Retirement Confidence Survey.

Seventeen percent of workers report that since January 1, 1993, they have left—before retirement—a job from which they were eligible to receive a lump-sum distribution from a retirement plan. One-third (34 percent) reported that they left some or all of the money in their former employer's plan. These are instances of benefit preservation that are typically missed by most publicly available survey data. Therefore, such data sources underestimate the true degree of benefit preservation that is occurring because they do not account for potential distributions that do not occur. As is shown here, "leaving the money behind in the plan" is a significant source of benefit preservation.

In addition, 42 percent of workers reported rolling over some or all of the money into an individual retirement account (IRA), and 8 percent reported a rollover into a new employer's plan. Therefore, when preservation does occur, it is most likely to occur by rollover to an IRA or leaving the money behind in the old employer's plan, not via rollover into a new employer's plan.

Finally, a significant percentage does report leakage of money out of the retirement system. Twenty-three percent report saving some or all of the money in a non-tax-preferred vehicle, and 30 percent report spending at least some of the money and/or paying off debt.

IRAs

Previous research indicates that the overwhelming majority of those currently eligible to make deductible IRA contributions do not contribute. This fact, combined with concern over low rates of national saving and an increasing focus on retirement income security, led to significant IRA expansion during the past two congressional sessions.

Other Surveys Find: According to a recent survey by the Investment Company Institute (ICI), 25 percent of households owned IRAs, but only 5 percent made a tax-deductible contribution in 1994.

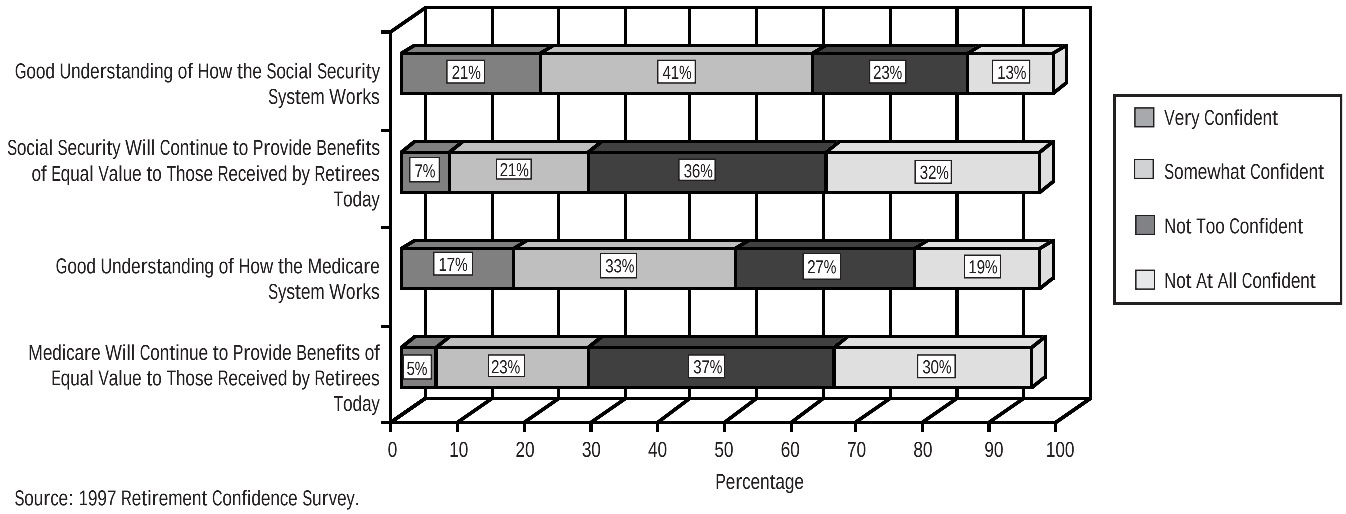
Why haven't more individuals contributed to an IRA? Part of the reason may be as simple as a lack of understanding regarding IRA eligibility and usage rules. According to the 1997 RCS, only 16 percent of all workers report that they have a very clear understanding of the eligibility rules for making tax-deductible IRA contributions. Thirty-four percent report that they find the rules somewhat clear, and 14 percent find the rules not too clear or not clear at all. In addition, 31 percent of workers do not know because they have never looked into making a deductible IRA contribution (chart 13).

Other Surveys Find: The Public Agenda/Fidelity study found that only 35 percent of single earner couples knew of the increase in the spousal IRA contribution limit that took effect in 1997.

Workers were also asked about some specific aspects of IRA usage by the RCS. While each question was answered correctly by a majority of workers, only 31 percent answered all three questions correctly (an additional 41 percent answered two questions correctly). Thirty-six percent of workers do not know that all workers can contribute to an IRA, 41 percent do not know that nonworking spouses can make tax deductible IRA contributions (under certain circumstances), and 28 percent do not know that it is possible to withdraw money from an IRA before retirement age.

IRAs surely have not become any simpler with the expansion of eligibility for contributions to deductible IRAs, the creation of two new types of IRAs (the nondeductible Roth IRA and the education IRA), and the expansion of circumstances under which money can be withdrawn without penalty—all enacted in the Taxpayer

Chart 14
Americans' Confidence in Social Security and Medicare



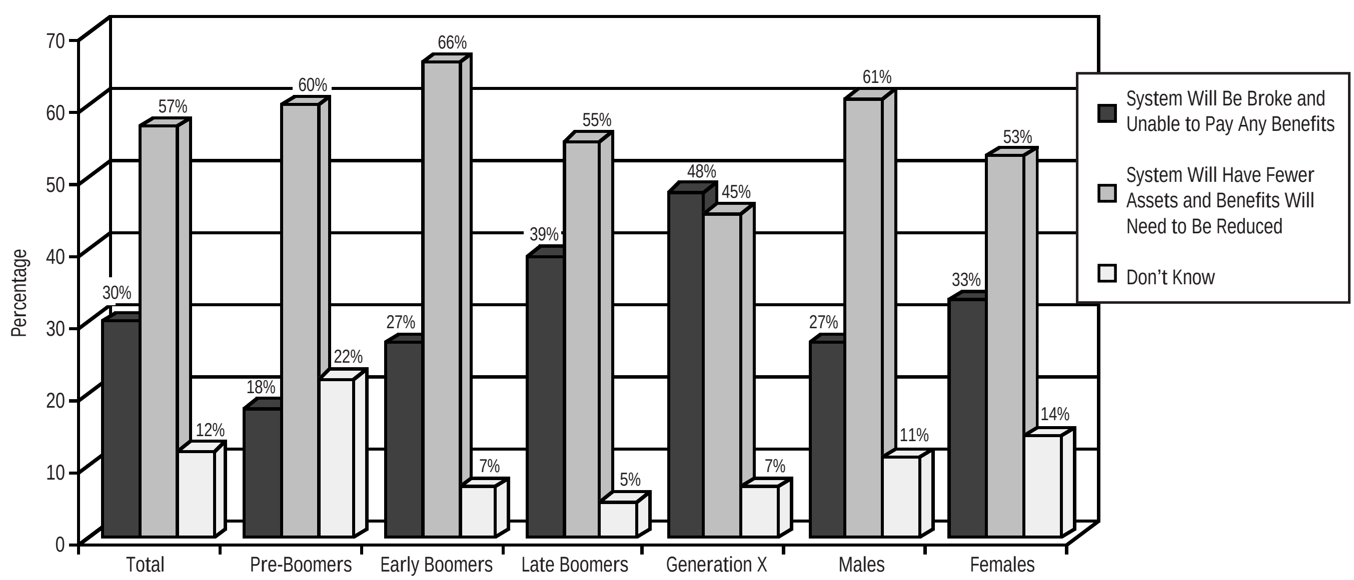
Source: 1997 Retirement Confidence Survey.

Relief Act of 1997. By the same token, financial institutions are certain to more aggressively market IRAs to the public and educate the public regarding their advantages. This is likely to increase the public's understanding of IRAs and increase their usage.

Social Security/ Medicare

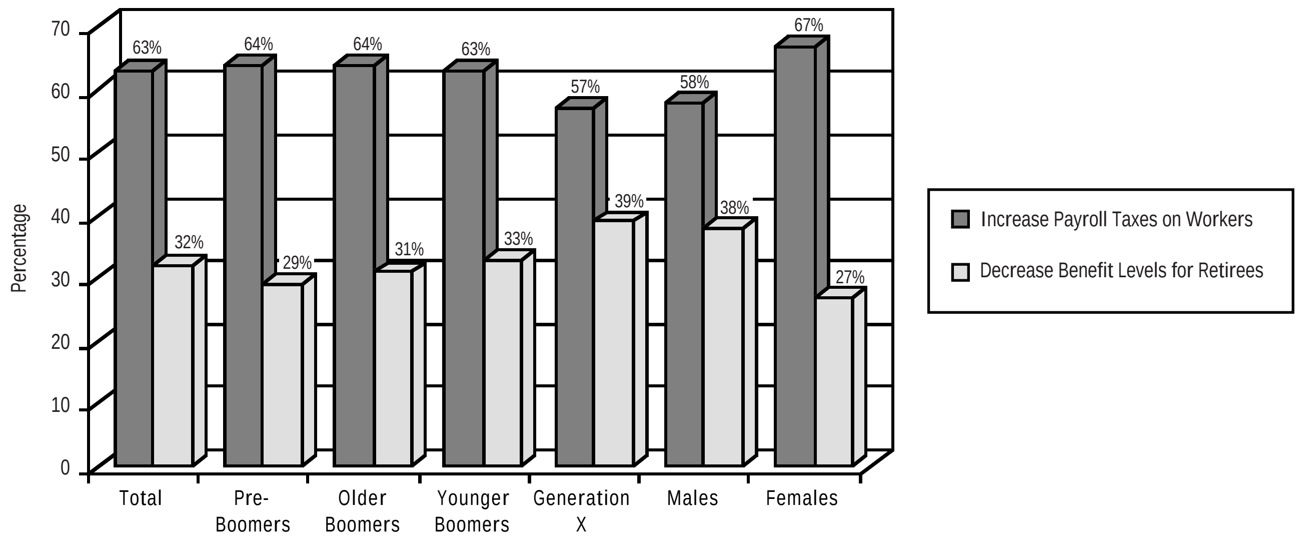
It is apparent that many Americans do not understand the debate over Social Security's long-term financial condition. Thirty-six percent reported in the RCS that they are not confident that they have a good understanding of how the Social Security system works (chart 14). While this number is at its lowest point since the question was first asked in 1992, it is still only slightly below the 38 percent figure reported in 1992. Respondents were asked what they believe the term "trust fund exhaustion" means and were given two choices—(1) the system will be completely broke and unable to pay any benefits or (2) the system will have fewer assets and will have to

Chart 15
Meaning of "Trust Fund Exhaustion" to Americans



Source: 1997 Retirement Confidence Survey.

Chart 16
If Forced to Choose, Americans' Preference for Social Security Reform



Source: 1997 Retirement Confidence Survey.

pay out benefits at a reduced level. Thirty percent incorrectly believe that it means the system will be completely broke and unable to pay any benefits (in addition, 12 percent responded that they do not know) (chart 15). The younger the individual, the more likely this response. Nearly one-half (48 percent) of generation X'ers believe trust fund exhaustion means system bankruptcy, compared with 18 percent of pre-boomers. This is not surprising, given that 52 percent of generation X'ers are not confident in their understanding of how the system works, compared with 23 percent of pre-boomers.

Sixty-eight percent of Americans are not confident that Social Security will continue to provide benefits of equal value to the benefits received by retirees today (chart 14). This figure is down from its peak of 73 percent in 1995, but is still higher than the 65 percent first reported in 1992. Among workers, only 12 percent expect it to be their most important source of retirement income, while 22 percent do not expect it to be an income source at all in retirement.

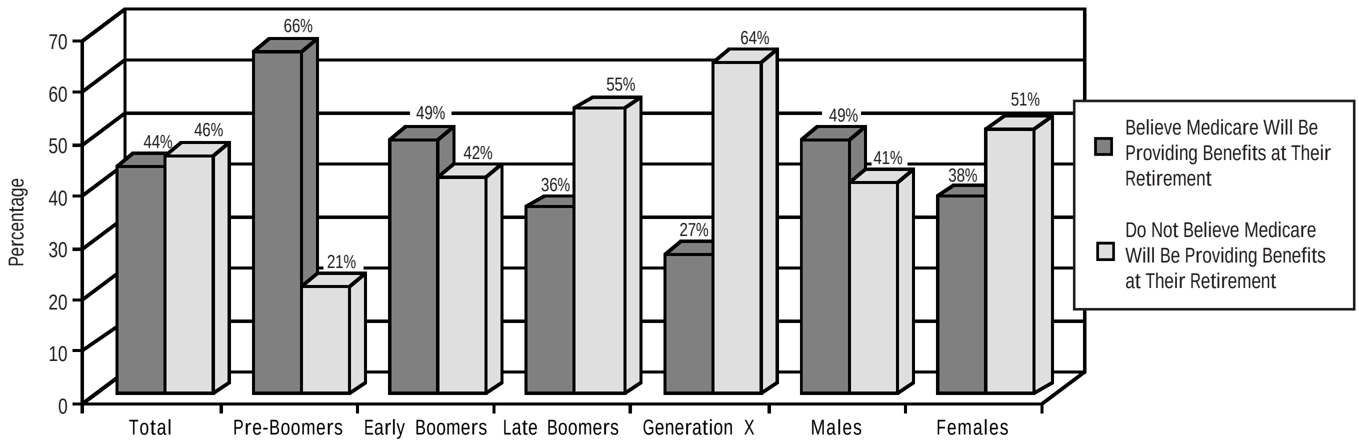
Other Surveys Find: The Public Agenda/Fidelity study found that 22 percent expect to get nothing from Social Security.

Assuming that adjustments or changes must be made to the Social Security system to ensure its financial viability in the future, RCS survey respondents were forced to express a preference between increased payroll taxes on workers or reduced benefit levels for retirees. When forced to choose, 63 percent chose increased payroll taxes and 32 percent chose decreased benefit levels (chart 16). The majority of each generation chose increased payroll taxes, although generation X'ers were the least likely to favor it (57 percent). Sixty-seven percent of women chose increased payroll taxes, compared with 58 percent of men. Among those favoring benefit cuts, there was a fairly even split when forced to express a preference for how to make the cut. Thirty-three percent favored raising the age for retirement with full benefits to 70, 37 percent favored decreasing cost-of-living-adjustments (COLAs) that occur with inflation, and 26 percent favored cutting benefits for all recipients.

As regards Medicare, 67 percent of Americans are not confident that the system will continue to provide benefits of equal value to the benefits received by retirees today (chart 14). In fact, 46 percent of workers do not believe that the Medicare program will still be providing health insurance when they retire (chart 17). Women are more likely to feel this way than men (51 percent, compared with 41 percent). Sixty-four percent of generation X'ers feel this way, compared with 55 percent of late boomers, 42 percent of early boomers, and 21 percent of pre-boomers. This may help explain why 36 percent of workers are not confident that they will have enough money to take care of medical expenses when they retire.

Assuming that changes must be made to the Medicare system to ensure its future financial viability, Americans were then forced to choose among three

Chart 17
Do Workers Believe Medicare Will Be There When They Retire?



Source: 1997 Retirement Confidence Survey.

generic reforms. The most preferred reform was changing Medicare to resemble a health maintenance organization (HMO) by using a restricted network of health care providers, followed by increasing the eligibility age for Medicare benefits from 65 to 67, followed by increasing payroll taxes for current workers. These rankings were consistent across generations, except for pre-boomers, who made increasing the eligibility age for Medicare benefits from 65 to 67 their first choice.

Segmenting the Population

Survey respondents were segmented into five groups based on their answers to 13 questions regarding personal confidence in retirement, confidence in the Social Security and Medicare systems continuing to provide benefits of equal value, and the importance of various sources of retirement income. Twenty-six percent of the population (both workers and retirees) was classified as "Self-Confidents," 15 percent as "Government Dependents," 21 percent as "Concerned Savers," 26 percent as "Pension Planners," and 12 percent as "Anxious Unprepareds" (chart 18).

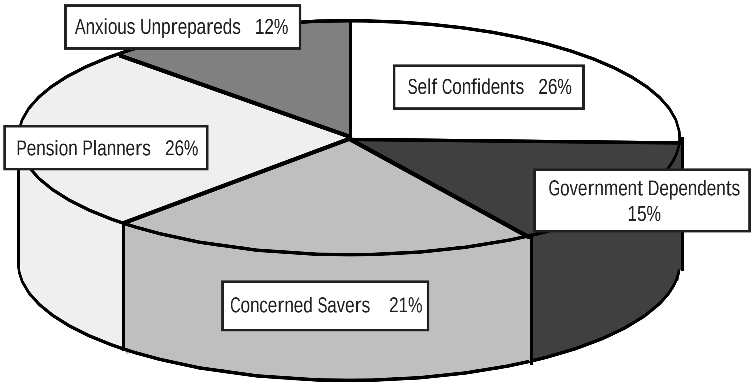
Concerned Savers are middle-of-the-road in terms of confidence on nearly all aspects of retirement, and are particularly worried about having enough money for medical expenses in retirement. They are the least likely to believe that Social Security and Medicare will continue to pay benefits of equal value to those received by retirees today. They are the most likely to rely on money they save through an employment-based plan. This group has a high proportion of women, minorities, and people with large families. Most are employed full time, and the average age is 44. Large proportions have household incomes between $25,000 and $50,000.

Pension Planners have the highest levels of overall confidence in having enough money for a comfortable retirement, confidence in covering basic expenses in retirement, and confidence in having enough money for recreation, entertainment, and travel. They are the most confident that Social Security and Medicare will continue to provide benefits of equal value to today's. They tend to rely on employer-funded plans for their retirement income. This group has a high proportion of men, Caucasians, married people, and those without children for whom they are financially responsible. The average age is 53, and most are employed full time or are retired. They are more likely than others to have graduate-level education. They tend to have household incomes between $50,000 and $100,000.

Anxious Unprepareds are not confident about any aspect of retirement. They do have some confidence that Social Security and Medicare will continue to provide benefits of equal value, but in some sense they have to because Social Security is what they are depending on for retirement income. The average age of Anxious Unprepareds is 50, and they are more likely to be women. This group also contains a larger proportion of unmarried persons than the other groups. They are less likely to be employed full time and tend to have lower levels of education (60 percent have a high school degree or less). Anxious Unprepareds tend to have low household incomes (57 percent have less than $25,000).

Self-Confidents, like Pension Planners, have high levels of confidence about most aspects of retirement, although they are considerably less likely to have

Chart 18
Segmenting the American Population



Self Confidents—Highly likely to rely on personal savings in retirement. High personal confidence.

Government Dependents—Highly likely to rely on Social Security in retirement. Unlikely to rely on other savings or plans in retirement.

Concerned Savers—Lowest faith in Social Security and Medicare. Most likely to rely on a saving plan through work in retirement.

Pension Planners—Highly likely to rely on an employer-funded plan in retirement. Highest personal confidence.

Anxious Unprepareds—Low personal confidence. Least likely to rely on an employer-funded plan, saving through work or other personal saving.

Source: 1997 Retirement Confidence Survey.

faith that Social Security and Medicare will continue to provide benefits of equal value. Self-Confidents are relying on personal saving, both through employment-based plans and outside such plans, for their retirement income. Fifty-three percent are men, and the average age is 42. They also tend to be white. Large proportions are self-employed or full-time workers. Relatively high proportions have never been married. They tend to be college graduates and have higher levels of education. Self-confidents are found spread across income groups, but they are more likely than other groups to have higher income levels.

Government Dependents are middle-of-the-road confident on nearly all aspects of retirement. They have the highest levels of faith that Social Security and Medicare will continue to pay benefits, and they are by far the most likely to rely on Social Security for retirement income. Government Dependents tend to be women, with a large proportion of widows. They also tend to be white, and the average age is 62. Members of this group in general have lower levels of educational attainment and have low incomes.

Retirement Preparation

Self-Confidents and Pension Planners are thinking about retirement the most—with 75 percent and 66 percent, respectively, reporting they have given retirement a great deal of thought. Majorities in both groups both would like to, and expect to, retire before reaching age 65. These groups put their money where their mouth is. Eight out of ten in each group have personally saved money for retirement—compared with only two-thirds of the general population. Both groups are also more likely than the others to report they have attempted to figure out how much money they need to save for retirement (51 percent of Self Confidents and 40 percent of Pension Planners.) Both groups report they began saving for retirement on average around age 30.

Anxious Unprepareds have the highest proportion (25 percent) who say they have not thought about retirement at all. In addition, 8 out of 10 Anxious Unprepareds, Concerned Savers, and Government Dependents have not attempted to determine how much money they need to save for retirement. More than three-quarters (78 percent) of Anxious Unprepareds have not personally saved any money for retirement. In fact, large proportions of both Anxious Unprepareds and Government Dependents report they have no assets in retirement savings plans. Anxious Unprepareds, Government Dependents, and Concerned Savers on average expect to retire at age 65.

Social Security and Medicare

Pension Planners and Government Dependents report the highest levels of confidence in understanding Social Security and Medicare. They also have the highest levels of confidence that these systems will continue to provide benefits of equal value to those provided today. Concerned Savers, Anxious Unprepareds, and Self-Confidents are less inclined to believe they understand the systems or that the systems will continue to provide benefits of equal value.

These latter three groups are also more likely to believe that Social Security trust fund "exhaustion" means that the system will be completely broke and unable to pay benefits as opposed to having less money and needing to pay benefits at reduced levels.

When forced to express a preference for changes in the Social Security system, Self-Confidents are the most likely (44 percent) to choose benefit level reductions as opposed to payroll tax increases. When forced to choose among changes to the Medicare system, Government Dependents appear to prefer raising the eligibility age as opposed to increasing taxes or making Medicare function like an HMO. Self-Confidents, Anxious Unprepareds, and Concerned Savers would prefer to see Medicare changed to resemble an HMO.

Conclusion

Employers as retirement plan sponsors, plan service providers, other financial institutions, policymakers, and the media have been successful in creating retirement savers. Most workers have begun to save for their retirement. Moreover, it is becoming increasingly clear that individuals are seeking educational material that helps them with their saving and investing decisions, and that such material does influence their decisions. This is encouraging news, especially because more remains to be done in the campaign for retirement income security

More specifically, while Americans may dream about retirement, and many in fact have already begun saving for retirement, most are not planning for retirement based on goals. The vast majority of workers do not have a target savings level for what they will need to ensure a comfortable retirement. It is difficult to develop a plan to reach a goal when that goal has not been quantified. Furthermore, one must wonder whether some of the confidence that is expressed is misplaced. Without a goal and a plan in place to achieve that goal, how can Americans be truly confident about their retirement income prospects?

Therefore, the next challenge facing plan sponsors, service providers, policymakers, the media, and other parties is to create retirement planners who then save accordingly. The task will not be easy; many workers see no value in such efforts because they do not feel they could save more, and besides, retirement is so far away. Moreover, at a deeper level, some simply want to hide from reality and hope things will work out. However, failure to meet this challenge could have dire consequences in the future, not only at the individual level but also for businesses with worker populations unable to retire when the time comes, and for the nation in the form of severe strains on federal programs such as Social Security and Medicare.

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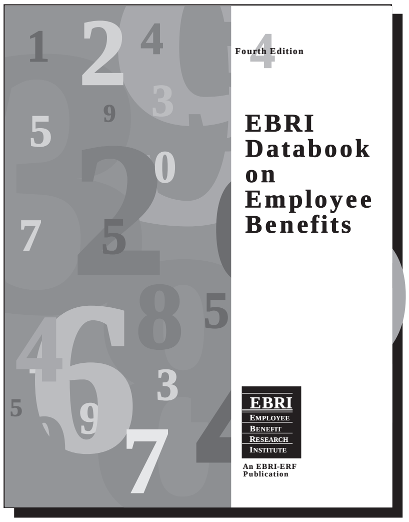

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