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The Evolution of Retirement: Results of the 1999 Retirement Confidence Survey

by Pamela Ostuw, Bill Pierron, and Paul Yakoboski, EBRI

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Issue Brief

- The ninth annual Retirement Confidence Survey (RCS) shows continued evidence of progress in the drive for retirement income security for American workers. However, there are still hurdles to overcome. The RCS tracks Americans' retirement planning and saving behavior and their confidence regarding various aspects of their retirement. It also categorizes workers and retirees into distinct groups based on their individual views on retirement, retirement planning, and saving.

- The retirement envisioned by today's workers looks different in many respects from that now experienced by current retirees. Today's workers expect to work longer than current retirees actually worked before retiring—and many say they plan to work for pay after they retire.

- Twenty-four percent of workers reported that they are very confident they will have enough money to live comfortably in retirement, and 45 percent reported that they are somewhat confident. However, there are indications that many may be falsely confident.

- The good news is that 70 percent of Americans are saving for retirement, and a growing percentage (49 percent) are going further and determining how much they need to save to fund their retirement. The bad news is that 30 percent of Americans have not begun to save for their retirement, and 51 percent have never tried to determine how much they need to save.

- Employers play a major role in ensuring adequate retirement preparation. Forty percent of all workers said they expect that money provided by their employer will be a major source of retirement income. Forty-six percent expect the money they put into a retirement plan at work to be a major source of income. The availability of a retirement plan at work is credited by 48 percent of savers as motivation to save.

- While worker education is a point of emphasis among both employers and policymakers, more remains to be done. For example, 59 percent of workers expect to be eligible for full Social Security benefits sooner than they actually will be, and an additional 19 percent admit they do not know when they will be eligible.

- There is evidence that education can have an impact on individual behavior. Forty percent of workers receiving educational material at work in the last year said that information caused them to begin saving (19 percent) or resume saving (21 percent) for retirement, while 40 percent said they changed the amount they were contributing to a retirement savings plan and 41 percent changed the allocation of their money in a retirement savings plan.

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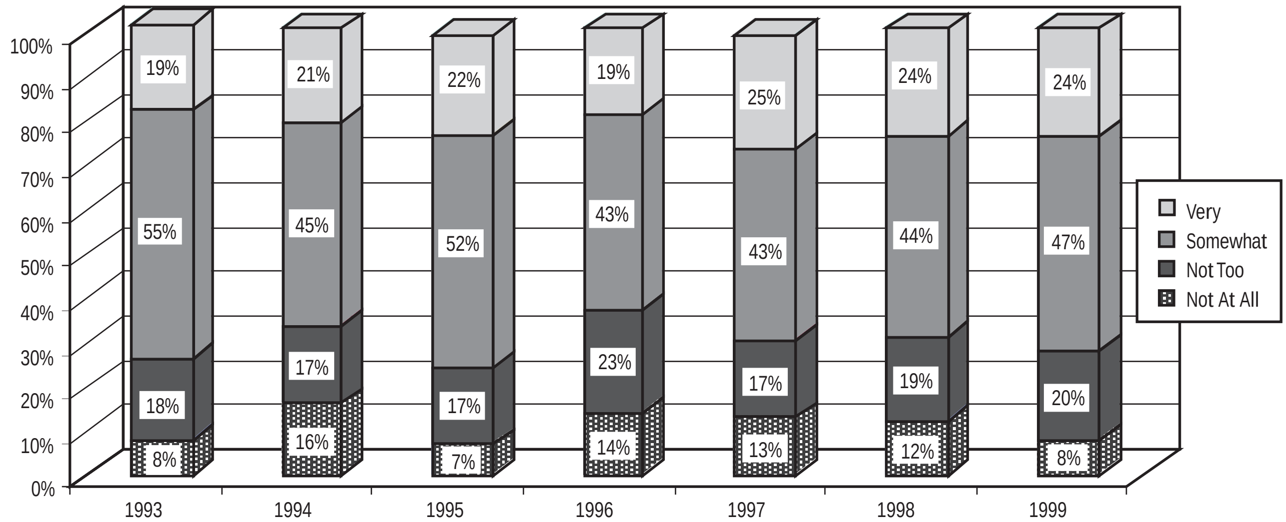
Pamela Ostuw, Bill Pierron, and Paul Yakoboski of EBRI wrote this *Issue Brief* with assistance from the Institute's research and editorial staffs. Any views expressed in this article are those of the authors and should not be ascribed to the officers, trustees, members, or other sponsors of EBRI, EBRI-ERF, or their staffs. Neither EBRI nor EBRI-ERF lobbies or takes positions on specific policy proposals. EBRI invites comment on this research.

Chart 1

Worker Confidence in Having Enough Money to Live Comfortably in Retirement



Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, Retirement Confidence Survey, 1993–1999.

Overview

The ninth annual Retirement Confidence Survey[1] (RCS) shows continued evidence of progress in the drive for retirement income security for American workers. However, there are still hurdles to overcome. The RCS tracks Americans' retirement planning and saving behavior and their confidence regarding various aspects of their retirement. It also categorizes workers and retirees into distinct groups based on their individual views on retirement, retirement planning, and saving.

The retirement envisioned by today's workers looks different in many respects from that now experienced by current retirees. Current workers expect to work longer than current retirees actually worked before retiring, and many say they plan to work for pay after they retire because they enjoy working and want to stay involved—not because they need the money. Today's workers are also changing their expectations about their sources of income in retirement. Current retirees are most likely to identify Social Security as their most important source of income, but current workers are most likely to say that they expect personal savings to be their most important source of income in retirement.

For the past three years, approximately one-fourth of American workers have reported they are very confident they will have enough money to live comfortably in retirement (24 percent in 1999), and approximately 45 percent have reported that they are somewhat confident (47 percent in 1999) (chart 1). However, there are several reasons to believe that many are falsely confident. Only one-half of all workers have even tried to determine how much they will need to save by the time they retire, only 36 percent have thought about insurance coverage for long-term care or nursing home needs, and just 16 percent report having accumulated $100,000 or more for retirement. In addition, many consider themselves savers rather than investors and report risk-averse investment behavior.

Fear continues to be one of the primary motivators for saving for retirement. Not being able to count on Social Security, seeing people not prepare and struggle in retirement, and realizing that time is running out to prepare are among the major factors that respondents identify as giving them a lot of motivation to save. However, the availability of a retirement plan at work and earning enough money to be able to save are also powerful motivators.

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[1] *The Retirement Confidence Survey (RCS) is sponsored by the Employee Benefit Research Institute (EBRI), the American Savings Education Council (ASEC), and Mathew Greenwald & Associates (MGA). The RCS was underwritten by 24 organizations, and the RCS Minority Survey was underwritten by nine organizations. Survey methodology and a list of underwriters can be found at the end of this* Issue Brief.

Table 1
Number of Workers Ages 18 and Over and Social Security Eligibility Ages, United States, 1997

Birth Year	Current Age	Number	Percentage	Social Security Eligibility Age
All (ages 18 and over)		139,733,257	100.0%	
1960–1981	Ages 18–39	72,941,668	52.2%	67
1955–1959	Ages 40–44	18,754,607	13.4	66–67
1943–1954	Ages 45–56	32,919,234	23.6	66
1938–1942	Ages 57–61	7,343,436	5.3	65–66
1937 and Earlier	Ages 62 and over	7,774,312	5.6	65

Source: Employee Benefit Research Institute tabulations of data from the March 1998 Current Population Survey.

Table 2
Workers' Expected Social Security Age

	Current Age				
	Total	Age <60	Age 60–64	Age 65	Age 66+
4 or More Years Earlier Than Actual Eligibility Age	17%	24%	26%	12%	5%
1–3 Years Earlier Than Actual Eligibility Age	42	43	38	46	45
Correct	16	4	16	18	24
Later Than Actual Eligibility Age	5	6	4	4	12
Don't Know	19	21	15	20	13

Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

Changes in Retirement

Social Security Retirement Age

Many of today's workers will not be eligible to receive full benefits from Social Security until they are age 67 (table 1), but few respondents are aware that the Social Security normal retirement age is being phased up, from age 65 to 67. A majority (59 percent) expect to reach full eligibility sooner than they actually will. Many of these workers incorrectly expect to be eligible for full benefits at age 65 (37 percent of all workers), but some believe they will be eligible even before age 65 (22 percent of all workers). Nineteen percent of workers say they do not know when they will be eligible to receive full benefits from Social Security. Only 16 percent are able to give the correct age at which they will be eligible for full benefits, and 5 percent believe they will be eligible later than they actually will be (table 2).

In general, the earlier that respondents are planning to retire, the earlier they believe they will be eligible for full benefits from Social Security. Forty-three percent of workers are planning to retire before age 65. Of these, one-fourth believe they will be eligible four or more years before they actually will be (25 percent), 40 percent think they will be eligible one to three years earlier than they actually will be, and 17 percent do not know when they will be eligible for full benefits. Just 11 percent of those planning to retire before age 65 are able to give their correct eligibility age. In contrast, 18 percent of those planning to retire at age 65 and 24 percent of those planning to retire at age 66 or later give their correct eligibility age.

Therefore, many workers are making plans and preparing for their retirement without even knowing when they will be eligible for Social Security. These findings suggest that more action is needed on the education front. As more Americans receive their *Social Security Statement* from the Social Security Administration, this particular knowledge gap should narrow. There are also implications for public involvement in the Social Security reform debate, as most individuals are unaware of changes that have already been made to improve the system's financial situation.

Work and Retirement

Nearly one-half of today's workers expect to retire at age 65 or later, and 5 percent expect they will never retire. In contrast to these expectations, however, most current retirees report actual retirement ages younger than age 65 (table 3).

For many retirees, this earlier retirement was not by design—43 percent of today's retirees say they retired earlier than planned. The youngest retirees—those born in 1933 or later—are especially likely to report retiring before age 60 or retiring earlier than expected.

If current workers follow the pattern set by today's retirees, many are also likely to retire earlier than planned, and many will do so for negative reasons.

Table 3
Expected vs. Actual Retirement Age

	Expected (percentage of workers)	Actual (percentage of retirees)
Ages 54 or Younger	5%	20%
Ages 55–59	13	16
Age 60	13	6
Ages 61–64	13	29
Age 65	30	14
Ages 66 or Older	17	12
Never Retire	5	n/a

Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

Table 4
Expected and Actual Most Important Source of Retirement Income

	Expected (percentage of workers)	Actual (percentage of retirees)
Personal Savings (net)	49%	18%
Money respondent put into a retirement plan at work	32	8
Other personal savings, not including work-related retirement plans	17	10
Employer-Funded Plans	20	30
Social Security	12	39
Employment	11	3
Sale of Home or Business	5	2
Other Government Programs	1	4

Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

Forty percent of today's retirees who left the work force earlier than expected say they did so because of health problems or disability. Other reasons cited for retiring earlier than planned are changes at the work place such as downsizing or closure (14 percent), family reasons (14 percent), and other work-related reasons (12 percent). Only a small proportion say they did so because they found they could afford an early retirement (14 percent).

While only 29 percent of retirees say they have worked for pay since they retired, an increasing proportion of workers indicate they expect to work for pay in retirement (68 percent, up from 61 percent in 1998). Both workers and retirees are most likely to identify enjoying work and wanting to stay involved as a major reason for working in retirement (64 percent and 62 percent, respectively). Yet workers, more so than retirees, also say major reasons they will work in retirement are to keep health insurance and other benefits (37 percent vs. 16 percent), to have money to make ends meet (37 percent vs. 26 percent), and to be able to afford extras (36 percent vs. 26 percent). Workers not confident they will have enough money for their retirement and those with lower household incomes are particularly likely to identify these other reasons.

Male workers are more likely than female workers to say they expect to work for pay after they retire (75 percent versus 61 percent). Generation X workers (69 percent), older baby boom workers (73 percent), and younger boomers (70 percent) are all more likely than pre-boomers (57 percent) to say they think they will work for pay after they retire.[2]

The foregoing findings are not surprising in light of developments already under way in the work place. The post-World War II trend of male workers leaving the work force at successively earlier ages ended in the mid-1980s, as older male labor force participation rates have been flat since 1985 (and have actually increased over the past several years). For example, the labor force participation rate for 65-year-old males was 71.7 percent in 1950. It fell steadily over time to 30.5 percent in 1985, and rose to 32.4 percent in 1997. Older female labor participation rates were relatively steady over time until the mid-1980s, and have increased significantly since then.

Furthermore, many older Americans leave the labor force gradually, utilizing "bridge jobs" between employment on a full-time career job and complete labor force withdrawal.[3] Such bridge jobs are often part time, often in a new line of work, and sometimes involve a switch from wage and salary work to self-employment. Estimates suggest that between one-third and one-half of older Americans will work on a bridge job before retiring completely, and for these workers retirement is best viewed as a process, not as a single event.

Retirement Income Sources

In the RCS, today's retirees are most likely to report Social Security or employer-provided money as their most important source of income in retirement (39 percent and 30 percent, respectively) (table 4). Eighteen percent of retirees report that their personal savings are their most important source of income. According to data for 1997 available from the Current Population Survey (CPS), Social Security accounted for 40.9 percent of the income of the elderly (age 65 and older). Income from pensions, individual retirement accounts (IRAs), 401(k)s,

[2] *Generation X includes those workers born in 1965 or later; younger boomers include workers born from 1954–1964; older boomers include workers born from 1946–1953; and pre-boomers include workers born in 1946 or earlier.*

[3] *For a complete discussion, see Joseph F. Quinn, "Retirement Patterns and Bridge Jobs in the 1990s,"* EBRI Issue Brief *no. 206 (Employee Benefit Research Institute, February 1999).*

Table 5
Estimated Total Retirement Assets in the United States, 1985-1998

End of	Private Trusteed Defined Benefit	Private Trusteed Defined Contribution	Assets Held by Life Insurance Companies[a]	Federal Government Retirement Plan Assets[a]	State and Local Government Retirement Plan Assets[a]	Total (Not Including IRA[b] Plan Assets)	IRA[b] Plan Assets[a]	Total (Including IRA[b] Plan Assets)
				($ billions)				
1985	$ 814	$ 417	$347	$154	$ 399	$2,130	$ 235	$2,365
1986	885	478	410	186	477	2,436	319	2,755
1987	883	523	459	219	524	2,608	390	2,997
1988	883	549	516	262	609	2,819	451	3,271
1989	983	673	572	289	767	3,284	546	3,830
1990	948	690	636	326	920	3,520	634	4,155
1991	1,120	843	678	366	1,032	4,039	774	4,812
1992	1,123	922	695	411	1,168	4,319	864	5,183
1993	1,232	1,043	739	465	1,256	4,735	993	5,728
1994	1,188	1,063	782	494	1,294	4,821	1,079	5,901
1995	1,364	1,234	n/a	537	1,518	4,652	1,352	6,004
1996	1,532	1,384	871	581	1,715	6,083	1,578	7,661
1997	1,821	1,634	896	595	2,094	7,040	1,948	8,988
1998	2,215	1,845	896	595	2,094	7,645	1,948	9,594

Source: Employee Benefit Research Institute.
[a]1998 data on Assets Held by Life Insurance Companies, Federal Retirement Plan Assets, State and Local Government Retirement Plan Assets, and IRA Plan assets are set to their 1997 levels because the 1998 data are not available.
[b]Individual retirement account.

annuities, and other retirement plans accounted for 19.5 percent of the elderly's income, while income from assets accounted for 20.2 percent of total income. Earnings accounted for 16.6 percent of the elderly's income in 1997.

The fact that only 39 percent of retirees in the RCS reported Social Security as their most important retirement income source is somewhat surprising, since it accounted for 87 percent of income for the bottom two quintiles of those age 65 and older, 78 percent of income for those in the middle quintile, and 54 percent of income for those in the fourth quintile in the CPS. This may be due to question wording and in particular to the use of the words "most important" in the RCS. While Social Security may account for most of an elderly person's income, the elderly may view another source such as a pension as "most important" if in their eyes that is what means the difference between a bearable retirement with just Social Security and a comfortable retirement with both sources.

In contrast with current retirees, one-half of current workers (49 percent) expect personal savings to be their most important source of income in retirement (table 4). Twenty percent of workers expect to rely most on employer-provided money, and 12 percent of workers expect Social Security to be their most important source of income. Not surprisingly, expected reliance on personal savings as the most important source of income increases as age *decreases*, while expected reliance on Social Security *increases* with age. Generation X workers (60 percent) are more likely than pre-boomers (33 percent) and older boomers (46 percent) to expect that personal savings will be their most important source of retirement income. Pre-boomers are more likely than workers in the other generation groups to expect Social Security to be their most important source of income in retirement. Twenty-four percent of pre-boomers, 12 percent of older boomers, 9 percent of younger boomers, and 5 percent of Generation X workers expect Social Security to be their most important retirement income source. Male workers and female workers do not differ in terms of expected sources of income in retirement.

As of year-end 1998, tax-qualified retirement plan assets in the United States amounted to $9.6 trillion. This includes private- and public-sector plans (both defined benefit and defined contribution) with a total of $7.6 trillion, as well as assets in IRAs with a total of $1.9 trillion. Table 5 provides further breakdown of employment-based plan assets into federal plan assets, state and local government plan assets, and private employer assets (with further breaks into trusteed defined benefit assets, trusteed defined contribution assets, and assets held by life insurance companies). This represents both employee savings and employer contributions.

By comparison, total retirement plan assets in 1985 were $2.4 trillion. This means that U.S. retirement assets in tax-qualified plans have quadrupled over the past 13 years.

Social Security and Medicare

Workers are increasingly confident that Social Security and Medicare will continue to provide benefits of equal value to those provided today. In 1999, 30 percent of respondents say they are very or somewhat confident that Social Security will continue to provide benefits of equal value, compared with just 20 percent in 1996. Likewise, in 1999, 33 percent say they are very or somewhat confident that Medicare will continue to provide benefits of equal value, compared with 23 percent in 1996. Still, at least two-thirds of current workers are not confident that each of these programs will continue to provide benefits equivalent to those received today (69 percent are not confident in Social Security and 66 percent are not confident in the Medicare program).

While workers' confidence in the Social Security and Medicare programs has been increasing in recent years, the year that each program's trust fund is expected to be depleted has continued to move further out. According to estimates in the latest Social Security Trustees' report, the amount paid out in Social Security benefits will begin to exceed the amount collected in tax revenues beginning in 2013 and the existing trust fund is estimated to be depleted by 2034.[4] The Medicare program is facing similar but more immediate constraints if the system remains unchanged. According to the Trustees of the Hospital Insurance Trust Fund, the amount being paid out in Medicare benefits is currently exceeding the amount of money being collected in tax revenues, and the existing Medicare trust fund is estimated to be depleted by 2015.[5]

Various reform proposals designed to improve the financial condition of the Social Security system have been put forth. Several of these have been analyzed by the EBRI-SSASIM2 Policy Simulation Model, which is uniquely able to provide comparative analysis of proposals for Social Security reform under random outcomes on the future growth of the economy and on returns in both the equity and bond markets, rather than relying on deterministic (static) predictions of the future.[6]

While the model has been used to evaluate most of the prominent reform proposals, in order to demonstrate its capabilities this discussion is limited to three generic reforms that would provide financial stability to the Social Security program. These three generic reforms contain what are called "traditional" reforms: increasing taxes, reducing benefits, and/or increasing the retirement age.

The first generic reform, "raising taxes only," would raise payroll taxes enough to fully fund current-law benefits. This involves gradually raising the Old-Age and Survivors Insurance (OASI) tax rate from 10.6 percent in the year 2000 to 16.4 percent in the year 2060.[7] "Reducing benefits only," the second generic reform, is just the opposite of raising taxes: Benefits would be reduced gradually to allow current-law taxes to fully fund the new lower benefits. This reform would gradually reduce benefits until they are approximately 28 percent lower than under current law.

The last of the generic reforms, "raising taxes/normal retirement age," would be a combination of the first two reforms. This is because raising the normal retirement age is essentially a benefit cut, since beneficiaries would receive a lower benefit when they retire at the same age as previous cohorts, or they would have to wait to a later age to receive full benefits. Under this reform, the OASI tax would gradually increase from 10.6 percent in 2000 to 14.92 percent in 2060, while the

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[4] *U.S. Department of Health and Human Services, Social Security Administration,* 1999 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds *(Baltimore, MD: Social Security Administration, 1999).*

[5] *U.S. Department of Health and Human Services, Health Care Financing Administration,* 1999 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund *(Washington, DC: U.S. Government Printing Office, 1999).*

[6] *For a description of the model, see Kelly A. Olsen, Jack VanDerhei, Dallas L. Salisbury, and Martin R. Holmer, "How Do Individual Social Security Accounts Stack Up? An Evaluation Using the EBRI-SSASIM2 Policy Simulation Model,"* EBRI Issue Brief *no. 195 (Employee Benefit Research Institute, March 1998).*

[7] *The disability insurance (DI) tax rate remains at 1.8 percent.*

Table 6
Comparison of Average Earners' Annual Real Benefits for Various Social Security Reform Proposals, by Birth Cohort and Gender (1998$)[a]

	Year of Birth								
Reform Proposal	1946	1956	1966	1976	1986	1996	2006	2016	2026
Raising Taxes Only									
Male	$17,556	$18,806	$19,873	$21,956	$24,110	$26,487	$31,740	$35,164	$38,445
Female	11,989	12,670	13,543	14,976	16,459	18,075	21,651	23,998	26,253
Reducing Benefits Only									
Male	16,215	14,762	14,244	15,718	17,252	18,928	22,647	25,055	27,381
Female	11,074	10,069	9,703	10,719	11,775	12,924	15,453	17,099	18,694
Raising Taxes/NRA[b]									
Male	16,906	17,516	18,948	20,300	21,620	23,012	26,690	28,682	30,886
Female	11,542	11,948	12,913	13,848	14,712	15,707	18,207	19,568	21,082

Source: EBRI-SSASIM2 Policy Simulation Model.
[a]Values are the average over 1,000 scenarios.
[b]Normal retirement age.

normal retirement age would increase from age 65 for those who reach 62 in 1999 by two months each year until it reaches age 67 for those who attain age 62 in 2011.[8] The retirement age is then indexed to longevity thereafter.

Table 6 compares the benefits for average wage earners across these three reform proposals (the model can also be used to model privatization proposals that involve individual accounts[9]). For the 1946 birth cohort, benefit levels are essentially the same under the three reform plans because most of the changes in these reforms (such as phased-in tax increases and benefit reductions) do not affect this cohort. For later cohorts, the "raising taxes only" reform provides the highest level of benefits, while the "reducing benefits only" reform provides the lowest level of benefits.

Retirement Confidence

According to the RCS, 71 percent of workers are confident that they will have enough money for a comfortable retirement. Majorities are also confident about having enough money for basic expenses, about their financial preparations for retirement, about having enough money to support themselves in retirement no matter how long they live, and about having enough money for medical expenses. Most of those who are confident are somewhat confident rather than very confident—that is, they should have enough money if everything goes just right (table 7). There are no differences in confidence by gender.

Should workers be as confident about their retirement as they are? The *Retirement Readiness Rating* (or R^3) is designed to indicate how well individual workers are preparing for retirement. The scale runs from 0 to 25, with those scoring 25 apparently doing the best job of preparation. The factors used to compute the score for each worker include saving for retirement, completing a savings needs calculation, establishing an investing or savings program for retirement, and attitudes toward various aspects of preparing for retirement.

Based on the results of this scale, 8 percent of American workers appear to be doing a very good job of preparing for retirement (R^3 score of 21 to 25). Thirty-one percent, with an R^3 score of 16 to 20, appear to be doing a good job, and a similar proportion appear to be doing an adequate job (32 percent with an R^3 score of 11 to 15). Nineteen percent appear to be doing a poor job (R^3 score of 6 to 10), and 10 percent seem to be doing a very poor job (R^3 score of 0 to 5). Not surprisingly, those with household incomes of $75,000 or more are more likely to score highly, but those who are married, those who work for businesses with more than 100 employees, and those who expect to rely primarily on personal savings (either through a retirement plan at work or outside of work) or on employer-funded plans are also more likely to score highly.

The *Retirement Readiness Rating* only partially

[8] *This means that if an individual turns 62 in 2004, his or her normal retirement age (the age at which the individual would qualify for full benefits) is 65 years, 10 months. Furthermore, if an individual turns 62 in 2008, his or her normal retirement age would be 66 years, six months.*

[9] *See Craig Copeland, Jack VanDerhei, and Dallas L. Salisbury, "Social Security Reform: Evaluating Current Proposals, Latest Results of the EBRI-SSASIM2 Policy Simulation Model,"* EBRI Issue Brief *no. 210 (Employee Benefit Research Institute, June 1999).*

Table 7
Workers' Retirement Confidence

Confidence That:	Very Confident	Somewhat Confident	Not Too Confident	Not at All Confident
You will have enough money to live comfortably throughout your retirement years?	24%	47%	20%	8%
You will have enough money to take care of your basic expenses during your retirement?	34	49	12	4
You are doing a good job of preparing financially for your retirement?	25	51	16	8
You will have enough money to support yourself in retirement, no matter how long you live?	19	51	19	9
You will have enough money to take care of your medical expenses when you retire?	17	43	25	13

Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

confirms respondents' self evaluations. Although those who are very confident about having enough money for retirement are more likely than others to score highly, only 26 percent score in the 21 to 25 R^3 range. Therefore, many of the workers who *say* they are confident about having enough money for retirement appear to be falsely confident (table 8). This is another area with no notable differences based on gender or generation.

Several indicators provide evidence supporting the fact that many workers may be falsely confident. Even though the proportion of workers who have tried to determine how much they need to save by the time they retire has increased steadily since 1996, only one-half of all current workers have actually tried to do this calculation (49 percent in 1999, compared with 32 percent in 1996). Those expecting to retire before age 59 or between the ages of 60 and 64 are more likely than those planning to retire later to say they have done this calculation. Curiously, however, those who have done the calculation are only slightly more likely than those who have not to be able to provide the correct age at which they will be eligible for full benefits from Social Security.

Only 36 percent of workers have thought about insurance coverage for long-term care or nursing home needs. Thirty-eight percent of workers are not confident that they will have enough money to take care of medical expenses in retirement, and when asked specifically about long-term care in the 1998 RCS, 52 percent of workers were not confident that they would have enough money to pay for long-term care, such as nursing home or home health care, should they need it in retirement. Increased life expectancy and the aging of the baby boom generation will bring rapid growth in the number of people at risk of needing long-term care. According to data from the Health Insurance Association of America (HIAA), as of year-end 1996, 120 companies had sold nearly 5 million long-term care insurance policies, and the market had grown an average of 22 percent between 1987 and 1996.[10] These insurance policies include individual, group association, employer-sponsored, and riders to life insurance policies that accelerate the death benefit for long-term care. Eighty percent of the long-term care policies in existence as of year-end 1996 had been sold through the individual and group association markets. In the employer-sponsored market, over 650,000 policies had been sold through 1,532 employers.[11]

Finally, while three-fourths of workers say they have established an investing or savings program for

Table 8
Retirement Readiness Rating by Workers' Overall Confidence

R^3 Score	All Workers	Very Confident	Somewhat Confident	Not Confident
Very Good (21–25)	8%	26%	3%	< 0.5%
Good (16–20)	31	48	36	8
Adequate (11–15)	32	17	38	33
Poor (6–10)	19	8	19	29
Very Poor (0–5)	10	1	3	30

Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

[10] *Source: Susan Coronel,* Long-Term Care Insurance in 1996 *(Washington, DC: Health Insurance Association of America, September 1998).*

[11] *Private insurance currently finances only a small portion of long-term care needs. Theoretically, individuals with assets to protect should be willing to pay for long-term care insurance. While the chances of having extended long-term care needs are small, the costs of such needs are extremely high. Only a small portion of those who can afford long-term care insurance have actually purchased it. For individuals who have no assets to protect or who believe they will never require formal care, such insurance may never be worth the price. However, others may lack information on the probability of needing such care; may mistakenly believe that they are already covered by Medicare, health insurance, or disability insurance; or may be dissatisfied with or mistrustful of policies that are currently available. Still others may not purchase insurance because of the knowledge that Medicaid covers long-term care. The use of private insurance is expected to grow as plan design improves and as an increasing number of individuals recognize the possibility of needing long-term care and the associated costs. The largest barrier to the expansion of the private long-term care insurance market is the lack of public readiness to use assets to insure against the relatively low probability of need.*

Table 9
Amount Accumulated for Retirement by Workers

	All Workers	Done Needs Calculation	Not Done Needs Calculation
Nothing	12%	5%	19%
Less than $5,000	11	6	14
$5,000–$9,999	10	8	13
$10,000–$24,999	15	12	19
$25,000–$49,999	13	12	16
$50,000–$99,999	16	21	11
$100,000 or More	23	36	8
Median	$29,514	$66,532	$14,054

Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

their retirement (74 percent), and 70 percent are saving for retirement, the amounts accumulated by workers as a whole are generally unimpressive. On average, however, those who have done a needs calculation have saved considerably more than those who have not done the calculation. The median amount accumulated by workers who have tried to figure out how much money they will need in retirement is $66,532, compared with a median of $14,054 accumulated by workers who have not done the calculation. The median amount accumulated for retirement by all workers is $29,514 (table 9).

While the median amount saved increases by age (ages 25–39, $20,588; ages 40–49, $45,238; ages 50–59, $71,250), workers age 60 and older have accumulated less ($39,286 median amount saved)—perhaps because they are more likely to expect to rely on Social Security for a major portion of their retirement income (table 10). To put these accumulations in perspective, assume a single male, age 65, purchases a life annuity today. With $71,250, he could purchase a nominal monthly annuity for life of $631; with $39,286, he would get a monthly annuity of only $348.[12]

Workers planning to retire earlier are generally better prepared than those who are planning to retire at age 65 or later. This is good news, in that those planning to retire earlier are apparently building the financial resources with which to do so. However, the fact that workers planning to work longer before retiring have generally accumulated less than others is of some concern, since these are the workers most at risk for involuntary early retirement.

The question of whether workers in general, and baby boomers in particular, are saving adequately for their retirement has prompted much research over recent years. Research by B. Douglas Bernheim has examined whether current workers are saving at a rate

Table 10
Median Amounts Workers Have Accumulated by Current Age

Ages 25–39	$20,588
Ages 40–49	45,238
Ages 50–59	71,250
Ages 60 and over	39,286

Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

sufficient to allow them to maintain the same level of consumption during retirement as they have during their working years.[13] To answer this question, a microsimulation model was developed that calculates how much baby boom households with varying characteristics need to save throughout their adult lives to accumulate enough for retirement at age 65.[14] Savings prescriptions generated by the model were then compared with actual savings deduced from a survey of baby boom households. The general conclusion, summarized in a "baby boomer retirement index," was that baby boomers are saving at only one-third the rate necessary to maintain their level of consumption in retirement.

William G. Gale (1997) argues that this index reveals little about the overall adequacy of retirement preparations, since it does not measure the adequacy of saving by the ratio of total retirement resources (Social Security, pensions, and other assets) to total retirement needs (the wealth necessary on the eve of retirement to maintain preretirement living standards).[15] Rather, it examines the ratio of "other assets" to the part of total need not covered by Social Security and pensions.

In addition, Bernheim's calculations discounted housing wealth. This exclusion has a dramatic effect on the findings; if housing wealth is taken into account, then the study found that baby boomers are saving at 84 percent of the rate necessary to maintain their level of

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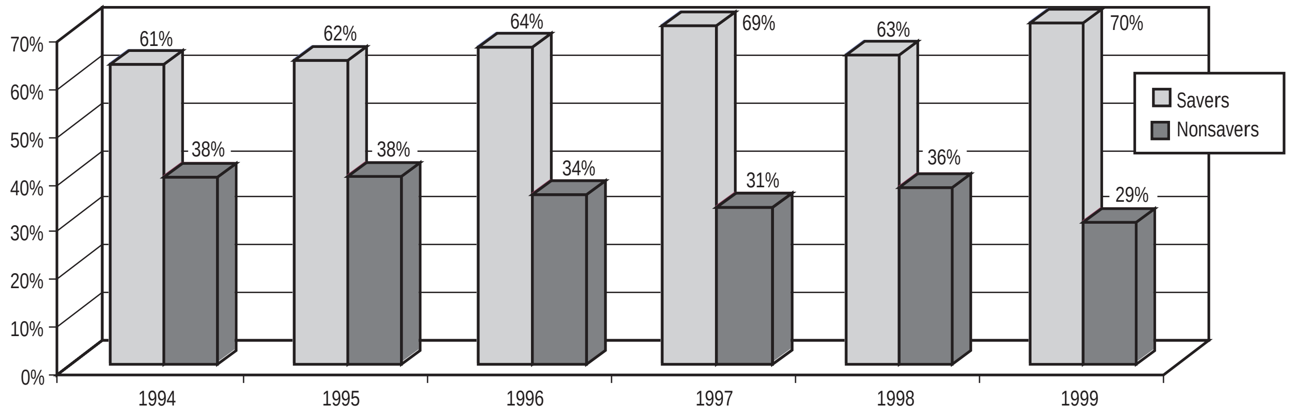
[12] *This assumes that $9.41 buys an annuity of $1 per year payable monthly (D.M. McGill, K.N. Brown, J.J. Haley, and S.J. Schieber,* Fundamentals of Private Pensions, *Seventh Edition, Philadelphia, PA: University of Pennsylvania Press, 1996).*

[13] *See B. Douglas Bernheim,* Is the Baby Boom Generation Preparing Adequately for Retirement? Summary Report *(Merrill Lynch & Co., Inc., 1993); and B. Douglas Bernheim,* Is the Baby Boom Generation Preparing Adequately for Retirement? Technical Report *(Merrill Lynch & Co., Inc., 1992).*

[14] *The model accounted for probable economic developments over the course of a lifetime and took account of Social Security, private pensions, taxes, interest rates, inflation, economic growth, family composition, and employment prospects.*

[15] *See William G. Gale, "Will the Baby Boom Be Ready for Retirement?"* The Brookings Review *(Summer 1997): 5–9.*

Chart 2
Savers vs. Nonsavers, Among Individual Workers, 1994–1999



Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, Retirement Confidence Surveys, 1994–1999.

consumption in retirement. The study also assumed a goal of maintaining a steady level of consumption after retirement. However, it is not clear that the same level of consumption in older age will be necessary to maintain the same standard of living when younger.[16]

Gale produces his own estimates of the proportion of married households, with the husband working, who are "on track" toward accumulating enough wealth for retirement.[17] Gale finds that when housing equity is not counted, 47 percent of all households (48 percent of baby boomer households) were saving adequately as of 1992. If all housing equity is counted, the fraction of households preparing adequately increases to 70 percent (71 percent for baby boomer households). (The author notes that other married couples and singles are likely to be faring worse.) Gale further notes that the median inadequate saver (ignoring all housing equity) has a shortfall of $22,000, or about six months of earnings.

Saving for Retirement

Seventy percent of workers report they are personally saving money for retirement—an increase from 63 percent who reported saving for retirement in 1998 (chart 2). A slightly larger proportion of workers report that they and/or their spouse are saving for retirement (75 percent) (chart 3). Male workers and females workers report similar levels of those personally saving for retirement and among households saving for retirement. There are no generational differences among workers, either.

Several different factors motivate people to save for retirement (chart 4). Major motivators cited by more than 1-in-5 workers are:

- Feeling they could not count on Social Security (53 percent).
- Starting to earn enough money to be able to save (49 percent).
- Having seen people not prepare and, therefore, struggle in retirement (48 percent).
- The availability of a retirement plan at work (48 percent).
- Realizing that time was running out to prepare for retirement (39 percent).
- The advice of a financial professional (24 percent).
- A family event, such as marriage, birth of a child, or parents' retirement (21 percent).

Overwhelmingly, nonsavers are most likely to say having too many current financial responsibilities is a major reason they do not save for retirement (66 percent). Other issues workers cite as major reasons for not saving are:

- Having other savings goals, such as a house or education (36 percent).
- No retirement savings plan offered at work (31 percent).
- Expecting to have a pension (26 percent).
- Lots of time remains until retirement (24 percent).
- Not knowing where to start (18 percent).
- Social Security will take care of them (16 percent).

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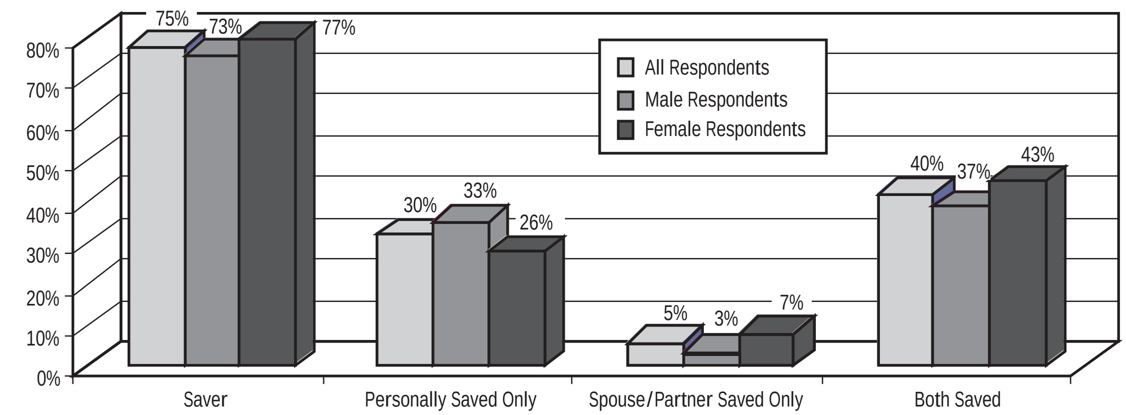
[16] *See Gale (1997) for additional critiques.*

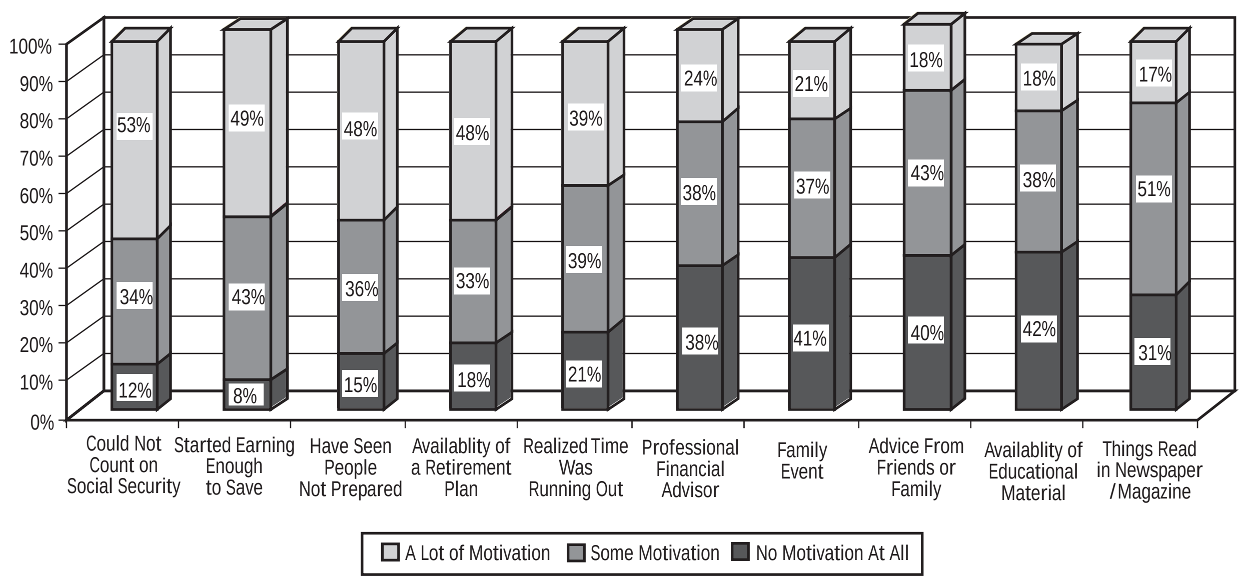
[17] *The measure of "on track" is based on calculations in a study by Bernheim and Scholz that uses the Bernheim model described earlier, so the data suffer from the biases discussed in reference to Bernheim's "baby boomer retirement index."*

Chart 3
Households That Are Saving for Retirement, by Gender



Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

Chart 4
Motivational Factors Among Retirement Savers (Current Workers)



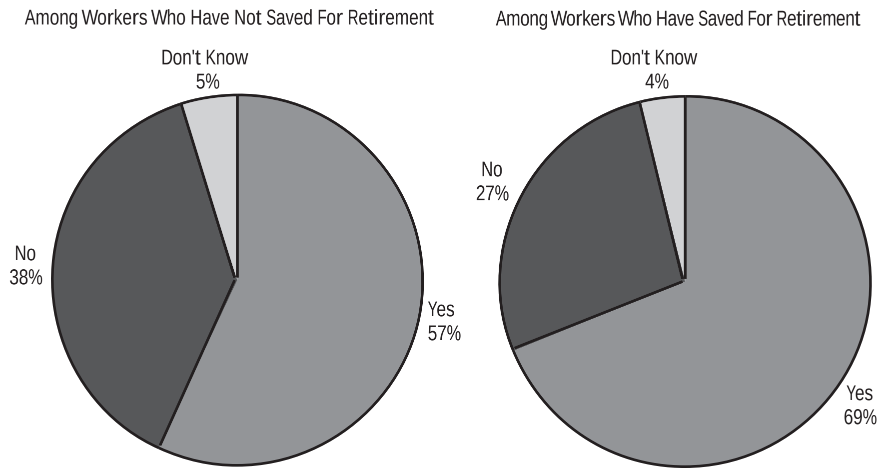
Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

- Being unable to find savings information that they understand and trust (15 percent).
- Not being confident in their ability to make good decisions about saving (13 percent).

Fifty-seven percent of workers who are not currently saving for retirement say that it is reasonably possible for them to save $20 per week for retirement. In addition, 69 percent of workers who are already saving report that it is possible for them to save an additional $20 per week (chart 5). Among those who say they could save this additional $20 per week, 12 percent say they would not have to give up anything to do so. Those who would have to sacrifice are most likely to say they would cut back on dining out or entertainment.

Among those workers who are not currently saving for retirement, similar proportions of male workers and female workers report that it would be possible for them to save $20 per week for retirement. Generation X workers who are not currently saving are more likely than nonsavers in any other generation to say it would be possible for them to save $20 per week.

Chart 5
Could You Save $20 per Week More for Retirement?



Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

Among those not saving for retirement, 78 percent of workers in Generation X, 58 percent of younger boomers, 50 percent of older boomers, and 39 percent of pre-boomers report that they could save $20 per week for retirement.

Among workers who are saving for retirement, male workers are more likely than female workers to say they could save an additional $20 per week for retirement (75 percent versus 63 percent). Among savers, 78 percent of workers in Generation X, 69 percent of younger boomers, 63 percent of older boomers, and 63 percent of pre-boomers report that they could save an additional $20 per week for retirement.

Saving $20 per week amounts to more than $1,000 per year, which saved over time can add up to a significant sum of money. The power of compound interest allows a 25-year-old saving $20 a week, assuming a 5 percent annual real rate of return over 40 years, to accumulate a retirement nest egg worth nearly $132,000. With a 10 percent annual real rate of return, $20 a week saved over 40 years can accumulate to over $500,000 (chart 6).

To put these potential accumulations in context, note from above that the median amount saved for retirement by current workers who are age 60 and older is $39,286 (for those ages 50–59 the median retirement savings is $71,250). Further perspective is provided by data from the Survey of Income and Program Participation. According to that data source, the median net financial assets[18] of all U.S. families in 1995 was $1,000.[19] Among those nearing retirement age (household head ages 55–64) median net financial assets were $4,800, and among those in early retirement years (household head ages 65–74) the figure was $12,500.

Median net worth among all U.S. families was $35,459 in 1995 (not counting home equity, the figure is $10,005). For those nearing retirement, median net worth was $86,478 ($19,873 without housing wealth). For families in the early retirement years, median net worth was $97,474 ($26,004 without home equity). Therefore, even seemingly small amounts of money saved over long periods of time can produce a nest egg that will make a real difference in retirement.

Investing for Retirement

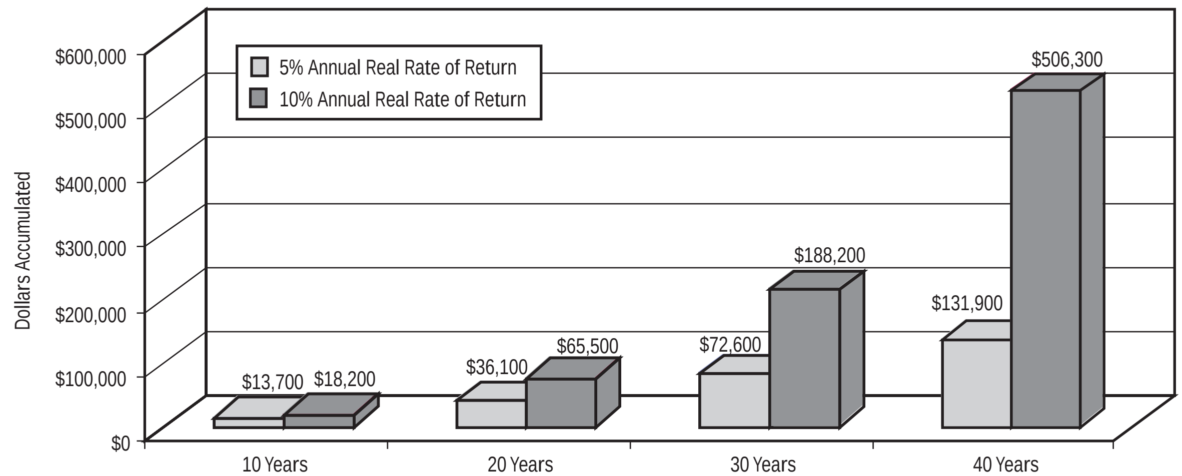
When it comes to investing their retirement savings, the majority of workers who are saving say that they are extremely confident (19 percent) or very confident (39 percent) that they are investing wisely. One-third (36 percent) are somewhat confident, i.e., they think they are doing a good job but are not sure. Finally, 4 percent are not too confident and 2 percent are not at all confident that they are investing their retirement savings wisely.

Data on actual asset allocation in 401(k) plans as of 1996 reveal great heterogeneity in worker decision making, even among workers in the same demographic groups. According to the EBRI/ICI Participant-Directed Retirement Plan Data set (1996), the share of assets

[18] *Gross financial assets less unsecured debt.*

[19] *See Joseph M. Anderson,* The Wealth of U.S. Families in 1995, Report to Merrill Lynch *(Chevy Chase, MD: Capital Research Associates, 1998).*

Chart 6
Impact of Saving $20 per Week



Source: Employee Benefit Research Institute calculations.

allocated to equity funds varies widely around the average of 44 percent for all participants. A total of 31 percent of the participants held no equity funds at all, while 7 percent had less than 20 percent allocated to equity funds. At the other extreme, 25 percent of the participants had over 80 percent of the plan balances invested in equity funds. The remaining 38 percent had allocations in equity funds ranging between 20 percent and 80 percent. The percentage of those holding no equity funds varies with age, but remains significant across age groups. Of those participants in their 60s, 46 percent held no equity funds, compared with 33 percent for those in their 50s, 30 percent for those in their 40s, 27 percent for those in their 30s, and 28 percent for those in their 20s.[20, 21]

Today's Retirees

The majority of retirees say their standard of living in retirement is at least as good as it was just before they retired (43 percent say it is better, 38 percent say it is about the same). A similar proportion say their experience in retirement in terms of having enough money to take care of basic expenses is at least as good as expected (44 percent better than expected, 37 percent same as expected), while a slightly smaller proportion say their experience in having enough money to cover medical expenses is at least as good as expected (40 per-cent better than expected, 35 percent same as expected). However, while a majority of retirees have found that the financial aspects of their retirement met or exceeded their expectations, 1-in-5 retirees is living a retirement that is in some sense financially disappointing. Although women are likely to live longer than men, there are no gender differences regarding standard-of-living experiences among current retirees.

Retirees with higher incomes are more likely than others to say that their retirement experiences are better than expected, but so are those relying on money from an employer as their most important source of income. In contrast, those relying on Social Security as their most important source of income, those who retired early, and nonsavers are more likely than others to find their retirement experiences worse than expected.

The Role of the Employer

Employers play a major role in ensuring adequate retirement preparation. Most obviously, 40 percent of all workers report that they expect money provided by their employer to be a major source of income in retirement, and the same proportion say it will be a minor source (41 percent). Even more important, however, 46 percent expect that

[20] The absence of equity fund holdings does not necessarily mean that a plan participant has no exposure to the stock market. Indeed, more than one-half of the individuals with no equity fund holdings had investments in either employer stock or balanced funds. For all participants with no equity funds, 34 percent of assets was in company stock and 8 percent was in balanced funds.

[21] See Jack VanDerhei, Russell Galer, Carol Quick, and John Rea, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity," EBRI Issue Brief *no. 205 (Employee Benefit Research Institute, January 1999).*

Table 11
Employer-Provided Retirement Planning Information Among Workers Provided Information

	Received	Most Useful
Brochures	50%	33%
Newsletters/Magazines	31	18
Seminars	23	14
Telephone Access to a Financial Planner	13	8
Workbooks/Worksheets	13	5
One-on-One Counseling	12	8
Telephone Access to Financial Information	9	2
Computer Software/On-Line Services/Internet	6	2
Videos	3	1

Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

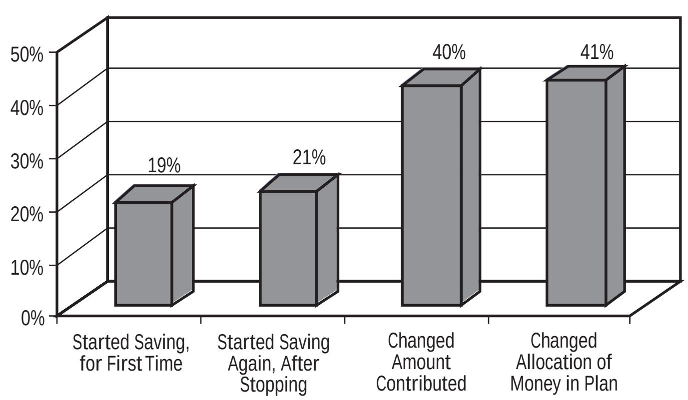
money they put into a retirement plan at work will be a major source of income, and 31 percent report it will be a minor source. Further, the availability of a retirement plan at work is credited by almost one-half of savers with giving them a lot of motivation to save (48 percent), and the lack of a plan is cited by 31 percent of nonsavers as a major reason they do not save.

Forty-two percent of workers report receiving educational materials or seminars about retirement planning and saving in the past year from their employer. One-half of those who received employer-provided materials say they received brochures (50 percent), and another third received newsletters or magazines (31 percent) (table 11). Forty percent of those who received some sort of educational materials from their employer say it caused them to begin (19 percent) or resume (21 percent) saving for retirement, while similar proportions say they changed the amount they were contributing to a retirement savings plan (40 percent) or changed the allocation of their money in a retirement savings plan (41 percent) (chart 7). In addition, those who reported receiving employer-provided materials are more likely than others to have also reported doing a retirement savings needs calculation.

Similar findings emerge from other studies. KPMG reports that 62 percent of employer respondents to their 1998 survey of retirement benefits offer employees some education or guidance on saving for retirement.[22] This is up from 46 percent in 1995. Furthermore, the survey finds that 60 percent of employers say they plan to increase financial education for retirement saving, with 20 percent of these saying they plan to increase their education efforts significantly. Finally, the survey notes that 401(k) participation rates are 71 percent when seminars are offered versus 54 percent when seminars are not offered.

A recent report by William M. Mercer concluded that communication to employees on savings plans has become increasingly sophisticated.[23] Most plans surveyed are now making use of company newsletters and benefit brochures, fund prospectuses, and personalized statements with illustrations or individual projections of investment growth to inform employees of their alternatives. More than one-half of those not using personalized statements expected to do so within one year. While only 14 percent of plan sponsors currently use the Internet or Intranet technologies, an additional 37 percent expect to use them within two years. Majorities of respondents say that communication efforts

Chart 7
Actions Resulting From Employer-Provided Information on Retirement Saving and Planning Among Workers Who Were Provided Information

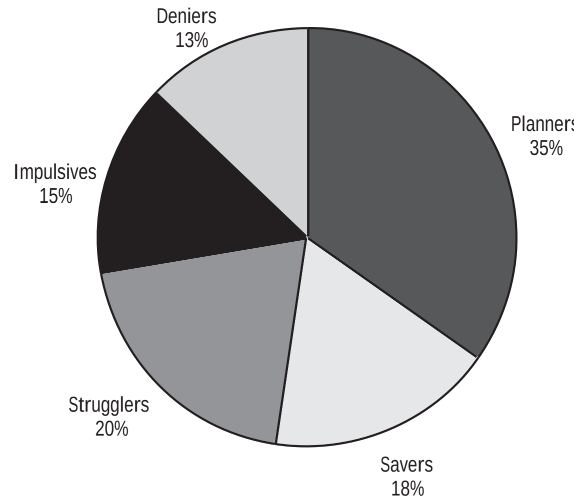


Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

[22] *See* Retirement Benefits in the 1990s: 1998 Survey Data *(KPMG, 1998).*

[23] *See* Survey on Employee Savings Plans 1997 *(William M. Mercer, 1997).*

Chart 8
Retirement Planning Personality Types Among Americans



Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

have resulted in higher participation and higher contribution levels, and have influenced employee asset allocation decisions.

Personality Types

An analysis of the workers and retirees in the 1999 RCS reveals five distinct groups of Americans (chart 8) who have very different attitudes toward their finances and planning for retirement.[24, 25] As shown by their scores on the *Retirement Readiness Rating*, Planners appear to be the best prepared for retirement, followed by Savers, Strugglers, Impulsives, and Deniers. Sixteen percent of Planners and 10 percent of Savers appear to be doing a very good job of preparing for retirement (a R^3 score of 21 to 25). This compares with 2 percent of Strugglers, 1 percent of Impulsives, and no Deniers scoring in the same range (table 12).

Descriptions of each personality type follow:

- *Planners* (35 percent of all Americans) believe anyone can have a comfortable retirement if he or she just plans and saves (90 percent). This group is composed of disciplined savers (86 percent). They always research and plan for big purchases (92 percent), enjoy financial planning (77 percent), and are willing to take substantial financial risk for substantial financial gain (42 percent). Approximately three-fourths are confident they are investing their retirement savings wisely (73 percent). Not surprisingly, 88 percent are confident that they will have enough money to live comfortably in retirement, almost all believe they will have enough money to take care of basic expenses (95 percent), and more than three-fourths believe they will have enough money to take care of medical expenses (76 percent).

- *Savers* (18 percent of all Americans) are very much like planners. They are disciplined savers (88 percent), many research and plan for large purchases (80 percent), and most enjoy financial planning (67 percent). But they are more cautious than planners—almost all pay off their credit cards at the end of every month (95 percent)—and their caution leads to risk-adverse investment behavior. One-half are not willing to take any financial risks, no matter what the gain (51 percent) and they characterize themselves as savers, not investors (93 percent). Still, they are confident about their retirement. A large majority believe they will have enough money to live comfortably (85 percent), will have enough money to take care of basic expenses (92 percent), and are doing a good job preparing financially for their retirement (89 percent).

[24] *This analysis is modeled on a segmentation analysis done by Public Agenda and EBRI in the 1994 report,* Promises to Keep *(New York, NY: Public Agenda, 1994). Four of the five groups were originally identified in that study.*

[25] *The segmentation was accomplished through the use of K-Means Cluster Analysis. In this method, initial cluster centers are estimated from responses to the selected survey questions. Each respondent is then assigned to the cluster whose average responses for each question are closest to the respondent's. Once all respondents have been assigned, the cluster centers are recalculated. The assignment of respondents to clusters and recalculation of cluster centers are repeated until the cluster centers remain stable. This results in distinct groups of Americans who respond similarly and in ways that clearly distinguish them from other groups.*

Several cluster solutions were examined and a five-group solution was selected as revealing the most distinct personality types. Each of these groups has unique views on retirement and the planning and saving process, as well as varying degrees of confidence in aspects of retirement and the preparations made.

Table 12
Retirement Readiness Rating by Personality Type

R^3 Score	Planners	Savers	Strugglers	Impulsives	Deniers
Very Good (21–25)	16%	10%	2%	1%	0%
Good (16–20)	46	34	25	17	11
Adequate (11–15)	26	42	39	36	21
Poor (6–10)	9	11	20	32	36
Very Poor (0–5)	2	3	13	15	32

Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

- *Strugglers* (20 percent of Americans) share many of the attitudes of planners and savers. They are disciplined savers (65 percent) who tend to research and plan for large purchases (84 percent). Cautious in their behavior, they consider themselves to be savers rather than investors (94 percent). But the fact that they are frequently set back from their financial goals by unexpected events (69 percent) makes them much less confident about their retirement prospects. Although three-fourths believe they will have enough money for basic expenses (77 percent), only 59 percent are confident they will have enough money to live comfortably throughout retirement.

- *Impulsives* (15 percent of all Americans) think that anyone can have a comfortable retirement if he or she just plans and saves (86 percent), but few consider themselves to be disciplined savers (34 percent). In fact, they are frequently set back from their financial goals (90 percent), frequently spend money when they do not plan to buy anything (51 percent), and tend to carry credit card debt (67 percent). Over one-half believe that they will have enough money to live comfortably throughout their retirement years (56 percent), despite the fact that a similar proportion has accumulated less than $25,000 toward their retirement (54 percent).

- *Deniers* (13 percent of Americans) feel it is pointless to plan for retirement (59 percent) and, more than any other group, they think retirement planning takes too much time and effort (35 percent). Many are impulse shoppers (42 percent), are frequently set back from their financial goals (68 percent), or unwilling to take any financial risks no matter what the gain (46 percent). One-half of this group is not confident about having enough money to live comfortably in retirement (50 percent), and 40 percent are not even confident of having enough money to take care of basic expenses.

Minorities

For the second year, as part of the Retirement Confidence Survey (RCS), additional respondents in three minority groups (African-Americans, Hispanic-Americans, and Asian-Americans) were surveyed for the RCS Minority Survey. Results of the survey show many similarities among individuals in these minority groups, but there are also differences among the groups. Retirement confidence, investment confidence, expected sources of income in retirement, retirement preparations and planning, savings motivators, and reasons for not saving are among the topics covered in the survey.

Retirement Confidence

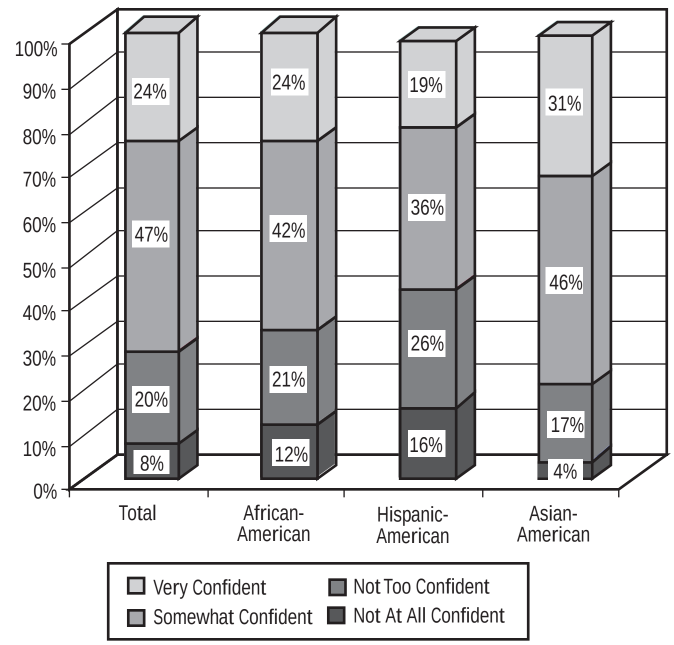
Overall—Asian-Americans are the most confident that they will have enough money to live comfortably throughout their retirement years. Hispanic-Americans are least confident (chart 9).

Specific Aspects of Retirement Confidence—Twenty-three percent of Asian-Americans are not confident that they are doing a good job of preparing financially for their retirement. This is just about equal to the proportion of all workers who are not confident (24 percent). Twenty-eight percent of African-Americans are not confident, and 42 percent of Hispanic-Americans (more than any other minority group) are not confident about this aspect of retirement.

When asked about confidence in having enough money to take care of medical expenses in retirement, 36 percent of African-Americans and Asian-Americans say they are not confident. Fifty-three percent of Hispanic-Americans are not confident, and 38 percent of all workers are not.

Twenty percent of Asian-Americans are not

Chart 9
Workers' Confidence in Their Overall Retirement Income Prospects, by Race



Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

confident they will have enough money to take care of basic expenses during their retirement. Similarly, 26 percent of African-Americans are not confident. Thirty-seven percent of Hispanic-Americans respond that they are not confident they will have enough money for basic expenses in retirement. (Sixteen percent of all workers are not confident.)

Forty-five percent of Hispanic-Americans say they are not confident that they will have enough money to support themselves in retirement, no matter how long they live. Thirty percent of African-Americans, 24 percent of Asian-Americans, and 28 percent of all workers feel the same.

Investment Confidence—Among individuals saving for retirement, there are no statistically significant differences among minority groups in confidence levels about investing retirement savings wisely. Forty-seven percent of Hispanic-Americans who are saving for retirement are extremely or very confident they are investing their retirement savings wisely. Among African-American and Asian-American savers, 52 percent and 51 percent, respectively, are extremely or very confident.

Most of the remaining savers in each of the minority groups are somewhat confident they are investing their retirement savings wisely. They think they are doing the right things, but they are not positive. Changes in the economy or stock market may affect their confidence levels in the future.

Expected Most Important Sources of Income in Retirement

African-Americans—Thirty-three percent of African-Americans expect personal savings to be their most important source of retirement income. This includes both personal savings for retirement through a plan at work and retirement savings outside of work. The second-most often cited expected source of income is money from an employer (i.e., a pension or an employer's contribution to a retirement account). Twenty-four percent of African-Americans expect this to be their most important source of income in retirement. Social Security is also frequently mentioned as an expected source, with 22 percent expecting this to be most important (table 13).

Hispanic-Americans—Hispanic-Americans also cite personal savings as their expected most important source of income in retirement (34 percent). Nineteen percent expect Social Security to be most important to them, and 16 percent expect full- or part-time employment to be their most important source of retirement income (table 13).

Asian-Americans—Forty-eight percent of Asian-Americans say they expect personal savings to be their most important source of income in retirement. Employer-provided money is expected to be the most important source of money for 15 percent of Asian-Americans. The sale of a home or business is expected to be the most important source of 11 percent, and 10 percent say they expect it will be full- or part-time employment (table 13).

Retirement Preparations and Planning

Household Savings—Asian-American households are the most likely of the minority group households to be saving

Table 13

Workers' Most Important Expected Source of Retirement Income, by Race

	Total	African-American	Hispanic-American	Asian-American
Personal Savings (net)	49%	33%	34%	48%
Money respondent put into a retirement plan at work	32	21	20	30
Other personal savings, not including work-related retirement plans	17	12	14	18
Employer-Funded Plans	20	24	14	15
Social Security	12	22	19	8
Employment	11	9	16	10
Sale of Home or Business	5	4	4	11
Other Government Programs	1	4	4	2
Support From Children/Family	<1	<1	5	2

Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

for retirement. Close to one-half of African-American and Hispanic-American households have begun saving for retirement (table 14).

Household Savings Needs Calculation—Many African-American and Asian-American households have tried to figure out how much money they will need to have saved by the time they retire so that they can live comfortably in retirement. However, many still have not attempted to do the calculation (table 14).

$20 Per Week—Savers were asked if they thought it would be reasonably possible for them to save $20 more per week than they are currently saving for retirement. A majority of savers in each of the minority groups indicate that they could. In addition, more than one-half of workers in each minority group without any personal retirement savings (nonsavers) report that it would be reasonably possible for them to save $20 per week for retirement (table 14).

Work for Pay After Retiring—Many individuals in each minority group say they expect to work for pay after they retire. Fifty-four percent of Asian-Americans, 61 percent of Hispanic-Americans, and 62 percent of African-Americans think they will work for pay in retirement. About two-thirds of all workers surveyed by the RCS indicate they expect to work for pay in retirement (68 percent) (table 14).

For many, the reason they expect to be working in retirement is because they enjoy work and want to stay involved. This is a major reason for 62 percent of African-Americans, 66 percent of Asian-Americans, and 67 percent of Hispanic-Americans. Another major reason many individuals expect to work for pay after retiring is to keep their health insurance or other benefits (49 percent of African-Americans, 50 percent of Asian-Americans, and 55 percent of Hispanic-Americans). Fifty-four percent of African-Americans think that a major reason they will work in retirement will be to have money to make ends meet (41 percent for Hispanic-Americans and 26 percent for Asian-Americans).

Employer-Provided Education Materials—Some employers provide their employees with educational materials or the opportunity to attend seminars about retirement

Table 14

Workers' Retirement Preparations and Planning, by Race

	Total	African-American	Hispanic-American	Asian-American
Household Has Saved for Retirement	75%	54%	48%	76%
Household Has Attempted a Retirement Savings Needs Calculation	52	46	34	55
Savers Who Could Save Another $20 per Week for Retirement	69	71	78	69
Nonsavers Who Could Save $20 per Week for Retirement	57	56	66	59
Expect to Work in Retirement	68	62	61	54
Have Received Employer-Provided Education Materials in the Past 12 Months	42	42	33	41

Source: Employee Benefit Research Institute, American Savings Education Council, and Mathew Greenwald & Associates, 1999 Retirement Confidence Survey.

planning and savings. Still, a majority of minority employees say they have not received these materials (table 14).

Motivators to Save for Retirement

African-Americans—The top reason African-Americans began saving for retirement is they feel they cannot count on Social Security. Sixty-two percent say this gave them a lot of motivation to begin saving. Seeing people who did not prepare for retirement and, therefore, have struggled in retirement gave 59 percent of African-Americans a lot of motivation to begin saving for retirement. Forty-nine percent say they realized time was running out to prepare and this gave them a lot of motivation to begin saving for retirement.

Hispanic-Americans—Among Hispanic-American savers, 55 percent say seeing people not prepare for retirement and struggle in retirement gave them a lot of motivation to save for retirement. This is the top motivator among Hispanic-American savers. Another motivator is that they felt they could not count on Social Security (49 percent). For 48 percent of Hispanic-American savers, the availability of a retirement plan at work gave them a lot of motivation to begin to save for retirement.

Asian-Americans—Forty-nine percent of Asian-American savers say the feeling that they could not count on Social Security gave them a lot of motivation to start saving for retirement. Among Asian-American savers, 46 percent say the fact that they started earning enough money to be able to save for retirement is a key motivator. Seeing people not prepare and then struggle in retirement also gave Asian-American savers a lot of motivation to start saving for retirement (42 percent).

Reasons for Not Saving

African-Americans—The top reason given by African-Americans for not saving for retirement is too many current financial responsibilities. Fifty-one percent say this is a major reason that they are not saving. Thirty-six percent of African-Americans also say a major reason they are not saving is that they have other savings goals, such as buying a house or saving for a child's education. In addition, 33 percent of African-Americans say the fact that they expect to have a pension is a major reason they have not begun to save for retirement.

Hispanic-Americans—The most common reason cited by Hispanic-Americans for not saving is also that they have too many current financial responsibilities: 56 percent say this is a major reason. Other savings goals, such as a house or child's education, are a major reason for 37 percent of Hispanic-Americans who are not saving for retirement. For 29 percent of Hispanic-Americans, a major reason they have not begun saving for retirement is they feel they have lots of time until their retirement.

Asian-Americans—The top three reasons Asian-Americans give for not saving for retirement are the same as those for Hispanic-Americans. Fifty-one percent of Asian-Americans say that having too many current financial responsibilities is a major reason they are not saving for retirement. Forty-nine percent of Asian-Americans also say that saving for other goals (e.g., a house or child's education) is a major reason they are not saving for their retirement. For 39 percent of Asian-Americans who are not saving for retirement, the feeling that they still have lots of time until retirement is a major reason they are not saving.

Conclusion

There are no quick fixes or "silver bullets" that will ensure retirement income security for today's workers. The good news is that 70 percent of Americans are saving for retirement and a growing percentage (49 percent) are going further and determining how much they will need to save and accumulate to fund their retirement. The bad news is that 30 percent of Americans have not begun to save for their retirement and 51 percent have never tried to determine how much they need to save.

Employers play a major role in ensuring adequate retirement preparation. Most obviously, 4-in-10 of all workers report that they expect money provided by their employer to be a major source of income in retirement (40 percent), and the same proportion say it will be a minor source (41 percent). Even more important, however, 46 percent expect that money they put into a retirement plan at work will be a major source of income, and 3-in-10 report it will be a minor source (31 percent). Further, the availability of a retirement plan at work is credited by almost one-half of savers with giving them a lot of motivation to save (48 percent), and the lack of a plan is cited by 3-in-10 nonsavers as a major reason they do not save (31 percent).

These results suggest much remains to be done, especially with public education. For example, 59 percent of workers expect to be eligible for full Social Security benefits sooner than they actually will be, and an additional 19 percent admit they do not know when they will be eligible.

The additional good news is the evidence that education can have a real impact on behavior at the individual level. More than 4-in-10 of all workers report receiving educational materials or attending seminars about retirement planning and saving in the past year from their employer (42 percent). Four-in-10 of those who received some sort of educational materials from their employer say it caused them to begin (19 percent) or resume (21 percent) saving for retirement, while similar proportions say they changed the amount they were contributing to a retirement savings plan (40 percent) or changed the allocation of their money in a retirement savings plan (41 percent). In addition, those who reported receiving employer-provided materials are more likely than others to have also reported doing a retirement savings needs calculation.

While calls for “more and better education” may seem mundane and trite to some, if retirement income security is viewed as a long-term challenge, education must be the central focus of public policy efforts.

Appendix I

RCS Methodology

The ninth annual Retirement Confidence Survey (RCS) 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 survey was conducted within the United States between Jan. 4 and Feb. 28, 1999, through 20-minute telephone interviews with 1,002 individuals (751 workers and 251 retirees) ages 25 and older. Random digit dialing was used to obtain a representative cross-section of the U.S. population, and interview quotas were established by sex of respondent to reflect the actual proportions in the population.

In addition to the 1,002 Americans in the base survey sample, African-Americans, Hispanic-Americans, and Asian-Americans were oversampled to permit analysis of these minority groups. A total of 200 interviews were completed within each ethnic group (totaling 600 interviews) among working adults, using targeted lists to supplement random digit dialing. Among Hispanic-Americans, interviews were conducted in English or Spanish, according to the preference of the respondent.

In theory, a sample of 1,002 yields a statistical precision of plus or minus 3 percentage points (with 95 percent certainty) of what the results would be if the entire population age 25 and older were surveyed with complete accuracy. Likewise, each of the minority samples of 200 has a precision of plus or minus 7 percentage points (with 95 percent certainty) of what the results would be if every member of the working minority population 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 difficult or impossible to quantify the errors that may result from them.

The RCS is co-sponsored by the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan public policy research organization; the American Savings Education Council (ASEC), a partnership of more than 250 private- and public-sector institutions dedicated to raising the public awareness of what is needed to ensure long-term personal financial independence, and a part of the EBRI Education and Research Fund; and Mathew Greenwald & Associates, Inc. (MGA), a Washington, DC-based market research firm.

The 1999 RCS data collection was funded by grants from 24 organizations, and the minority oversamples were funded by grants from nine organizations. Staffing was donated by EBRI, ASEC, and MGA. RCS materials may be accessed at the EBRI Web site: www.ebri.org/rcs. A list of underwriters can be found at the end of this *Issue Brief*.

Appendix II

Current Legislative Proposals

As public interest in planning and saving for retirement has grown, some members of the 106th Congress have proposed broadening access to individual savings and retirement plans and enhancing them in ways that will allow greater tax-advantaged savings. Congressional proposals aimed at enhancing retirement plans can generally be divided into two categories: 1) raising the amounts that can be contributed, and 2) easing the regulatory and administrative hurdles faced by plan sponsors and participants.

The three primary pension-related legislative vehicles introduced in the 106th Congress were:

- H.R. 1120, the Comprehensive Retirement Security and Pension Reform Act, cosponsored by Reps. Rob Portman (R-OH) and Ben Cardin (D-MD).
- S. 649, the Retirement Savings Opportunity Act, introduced by Sens. William Roth (R-DE) and Max Baucus (D-MT).
- S. 741, the Pension Coverage and Portability Act, introduced by Sens. Bob Graham (D-FL), Charles Grassley (R-IA), and a group of bipartisan cosponsors.

Various elements from all of these bills were later melded into the omnibus tax bill passed by the House and Senate in the summer of 1999 (H.R. 2488), which was subsequently vetoed by President Clinton. At this writing (late 1999), selected pension-related elements of the bill were under consideration as part of pending minimum-wage legislation.

The final version of H.R. 2488 contained numerous provisions aimed at making individual saving and investing more attractive, boosting IRAs, and providing enhanced retirement savings opportunities through employment-based plans. The following is a list of those elements of the vetoed bill that were intended to promote savings and investment on an individual basis and to enhance retirement plan participation and contributions.

Capital Gains Provisions:

- The rates on adjusted net capital gains would be reduced to 18 percent from 20 percent, and 8 percent from 10 percent for taxpayers in the lowest marginal bracket.
- Certain capital assets would be indexed to inflation, generally reducing the amount subject to capital gains taxes.

IRA Provisions:

- The annual IRA contribution limit (for both conventional and Roth IRAs) would increase to $3,000 in 2000–2003, $4,000 in 2004–2005, and rise again to $5,000 in 2006–2007. It would drop back to $2,000 per year in 2008 and thereafter.
- The adjusted gross income limit for Roth IRA conversions would rise to $200,000 for married filers and $100,000 for all other filers. The bill also would allow those married but filing separately to convert traditional IRAs to Roth IRAs.
- Additional "catch-up" contributions would be allowed for individuals ages 50 and older, effective in 2001. This excess amount would increase by 10 percent per year for each year from 2001–2005, reaching a maximum of 50 percent more than the dollar limit applicable at the time. In addition, qualified retirement plans could include "side car" IRAs.
- Tax-free withdrawals from IRAs for charitable purposes would be allowed beginning in 2002.

Pension Provisions:

- Sec. 415(b) limits would be increased to $160,000, then indexed to inflation in $5,000 increments.
  Sec. 415(c) limits would be raised to $40,000, then indexed to inflation in $1,000 increments.
  Sec. 401(a)(17) limits would be raised to $200,000, then indexed to inflation in $5,000 increments.

Sec. 402(g) and 457 limits would be raised to $15,000 in $1,000 increments, then indexed for inflation in $500 increments.
- "Top-heavy" rules would be modified. Only employees earning more than $150,000 per year would qualify as "key employees," regardless of their status as officers of a company, and the four-year look-back rule for determining key employee status would be eliminated. In addition, the bill would allow matching contributions to count toward satisfying the top-heavy minimums, family attribution would be repealed, and the Sec. 401(k) safe harbor would be deemed to satisfy the top-heavy rules. Small employers are most strongly impacted by the "top-heavy" rules.
- Minimum distribution rules would be modified.
- Plan loans would be allowed for subchapter S corporation shareholders, partners, and sole proprietors, through a modification of the prohibited transaction rules. Subchapter S status, which allows a corporation to be taxed like a partnership while maintaining a corporate structure for liability purposes, is fairly common among small employers.
- Nondiscrimination rules would be modified by deeming that a plan satisfies the rules if it meets the "facts and circumstances" test under 401(a)(4).
- The multiple-use test would be repealed, requiring the Treasury Department to revise nondiscrimination regulations and issue a determination letter regarding the nondiscrimination tests.
- "Catch-up" contributions for individuals ages 50 and older would be allowed, by increasing the elective deferral limits for Sec. 401(k), 403(b), 457, SIMPLE plans, and IRAs by 10 percent per year for each year from 2001–2005, reaching a maximum of 50 percent more than the dollar limit. Nondiscrimination rules would not apply to these contributions.
- The 100 percent of compensation limit would be clarified, to stipulate that it does not apply to multiemployer plans.
- Portability among different types of plans and rollover IRAs would be eased by standardizing the tax treatment of preretirement distributions.
- Vesting schedules for employer contributions to 401(k) plans would be accelerated to three from five years for "cliff" or 100 percent vesting, and to six from seven years for gradual vesting.
- A flat Pension Benefit Guaranty Corporation premium of $5 per participant would be available to small employers (those with 100 or few employees) that establish defined benefit plans.
- Additional disclosure would be required involving potential benefit reductions in certain retirement plans (in particular, cash balance conversions). The bill would have required plan sponsors to notify participants of a "significant" reduction in future benefit accruals, and created a monetary penalty for failure to comply with the notice requirement. The Treasury Department would be required to develop more stringent rules for disclosure, including sufficient information so that an individual participant could compute his or her projected benefit under the plan as amended.

Appendix III

What Is Your R³—Retirement Readiness Rating?

So you think you're preparing well for your retirement, but are you really? Use this quiz to determine your Retirement Readiness Rating (R^3). Your R^3 is an indicator of how good a job you're actually doing in financial preparation for retirement. It may help you flag some action items that, up to now, you may have neglected or overlooked. And if you have, it provides some resources to point you in the right direction and help you get started!

Answer each question (truthfully!) and enter the points earned (indicated in parentheses) on the line provided.

1. Have you (or your spouse) personally saved any money for retirement? Do not include Social Security taxes or employer-provided money. Saving could include money you put into a plan at work, such as a 401(k).
   Yes (4)   No (0)   _____ points

2. Have you (or your spouse) tried to figure out how much money you will need to have saved by the time you retire so that you can live comfortably in retirement?
   Yes (3)   No (0)   _____ points

3. Do you have an investing or savings program for your retirement?
   Yes (2)   No (0)   _____ points

4. Have you thought about insurance coverage for long-term care or nursing home needs?
   Yes (2)   No (0)   _____ points

5. How confident are you (and your spouse) about the following issues related to retirement? Would you say that you are *very* confident, *somewhat* confident, *not too* confident, or *not at all* confident…
   a. …that you are doing a good job of preparing financially for your retirement?
      Very confident (2)   Somewhat confident (1)   Not too/not at all confident (0)   _____ points

   b. …that you will have enough money to take care of your medical expenses when you retire?
      Very confident (2)   Somewhat confident (1)   Not too/not at all confident (0)   _____ points

   c. …that you will have enough money to support yourself (yourselves) in retirement, no matter how long you live?
      Very confident (2)   Somewhat confident (1)   Not too/not at all confident (0)   _____ points

6. How well does each of the following statements describe you? Would you say it describes you very well, well, not too well, or not at all?

   a. I am disciplined at saving.
      Very well (2)   Well (1)   Not too well (0)   Not at all (0)   _____ points

   b. I am not willing to take any financial risks, no matter what the gain.
      Very well (0)   Well (0)   Not too well (1)   Not at all (2)   _____ points

   c. If I just save some money each month, I will be fine in my retirement.
      Very well (0)   Well (0)   Not too well (1)   Not at all (2)

   d. I think preparing for retirement takes too much time and effort.
      Very well (0)   Well (0)   Not too well (1)   Not at all (2)   _____ points

How did you do? Add up your points and turn the page over to see how you stack up.   Total Score: _____ points

What Next?

If you scored ***0–5***, you need to get started. But you are not alone; 10 percent of American workers fall into this group. What should you do? Choose to save, now! Only 1 percent of Americans in this group have begun to save for retirement, but one-half say that they could save $20 per week for retirement. That's over $1,000 per year, which could really add up over time. Assuming a modest 5 percent rate of return saving $20 a week would result in more than $50,000 over 25 years! For information on getting started, check out ASEC's *The Power to Choose* brochure (www.asec.org or 1-800-998-7542).

If you scored ***6–10***, you have work to do. Nineteen percent of American workers fall into this group with you. There's a 50/50 chance you have begun to save. If not, choose to save! Sixty-one percent of non-savers in this group say they could put away $20 per week. Assuming a modest 5 percent rate of return saving $20 a week would result in more than $50,000 over 25 years! For information on getting started, check out ASEC's *The Power to Choose* brochure (www.asec.org or 1-800-998-7542). Once you're saving (or if you already are), get a plan. Only 13 percent of this group has tried to figure out how much they need to save. Take 10 minutes to do the *Ballpark Estimate* worksheet (www.asec.org or 1-800-998-7542) and establish a savings goal!

If you scored ***11–15***, you've taken the first big step. Now take the second! Thirty-two percent of American workers are in this group, and 87 percent of them have begun to save for their retirement. However, less than one-half have tried to figure out how much they need to save. Take 10 minutes to do the *Ballpark Estimate* worksheet (www.asec.org or 1-800-998-7542) and establish a savings goal! As Yogi Berra once said, "If you don't know where you're going, you will end up somewhere else."

If you scored ***16–20***, you're off to a good start. Thirty-one percent of working Americans are in this group—99 percent have *begun* to save and 88 percent have tried to figure out how much they *need* to save. But are you on target? Seventy-six percent say they could save another $20 per week for retirement. So if you are not on target, put a little more away. In addition, 25 percent of this group is only *somewhat* confident that they are investing their retirement savings wisely. If that's you, take the time to learn some more about investing. It may help you sleep even better at night.

If you scored ***21–25***, you are among the few. Only 8 percent of working Americans scored at this level. You are saving, you have tried to determine how much you need to save, and you are very or extremely confident that you are investing your retirement savings wisely. Evaluate your progress periodically to make sure you stay on track. Is there anything you might have missed? Twenty percent of this group have not thought about long-term care insurance. Have you?

1999 RCS Underwriters

The 1999 Retirement Confidence Survey (RCS) was underwritten by grants from the following organizations: AARP, Aid Association for Lutherans, American Compensation Association, American Council of Life Insurance, American General Retirement Services/ VALIC, Aon Consulting, AT&T, Barclays Global Investors, CIGNA Corporation, Ernst & Young, LLP, Fidelity Institutional Retirement Services Co., John Hancock Mutual Life Insurance, Lucent Technologies, ManuLife Financial, MetLife Insurance Company, National Council of La Raza, Nationwide Life Insurance Co., Principal Financial Group, Prudential Investments, SBC Communications, Society for Human Resource Management, TIAA-CREF, T. Rowe Price, and The Vanguard Group.

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