Overview

Americans dream of early retirement, but have accumulated little savings, and have done even less planning to make that retirement happen. Encouraging news showing a growing percentage of savers (69 percent of current workers) also reveals a naively unprepared population. Only 27 percent of Americans have any idea of what they will need to accumulate to retire when and how they want. Only 36 percent, slightly more than one-third, have even tried to determine how much they need to save by retirement. We have done a good job of creating savers, but future retirement income security will depend on creating goal-oriented planners who then save to achieve that goal.

Today, dismal planning crosses age and gender. The RCS also reveals a generation gap and some significant gender differences in attitudes and expectations relating to retirement. The nature of retirement may also be changing. Two-thirds of workers would like to retire before age 65. One-third would like to retire by age 55--yet only 15 percent expect to retire that early. Seventy-two percent of all workers plan to work after retirement--especially younger boomers, those currently ages 34-44. The 72 percent represents a 7 percentage point increase over the 1996 RCS. 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.

The younger the persons, the more they believe their personal savings will be the primary source of their retirement income. This represents a significant change in attitude from older Americans who expect to rely much more heavily on employer-funded plans and Social Security. Overall, there seems to be an underlying wave of change in how Americans perceive their prospects for the "Golden Years."

Despite the lack of real retirement planning among workers, 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 Americans have begun to save for retirement. Moreover, evidence is mounting that retirement education campaigns can have a real impact on individual behavior. The overwhelming majority of workers do take advantage of educational material when it is provided by their employers, and many adjust their behavior, e.g., change contribution levels or asset allocations in retirement saving vehicles, as a result.

The path ahead for those who do not plan and save can be perilous. Americans, especially younger Americans, believe that Social Security and Medicare not only will not cover their needs, but, in the eyes of generation X'ers, may not even be available to them. And, 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.

Regardless of their age, economic status, or gender, there is one primary lesson from the 1997 RCS: workers need to be motivated beyond current levels to plan financially for their retirement. The task will not be easy. Finding the will and means to make the necessary financial arrangements is hard at all ages and income levels. The RCS reveals that many workers see no value in such efforts because they do not feel they could save more, and besides, retirement is so far away. At a deeper level, some simply want to hide from reality and hope things will work out.

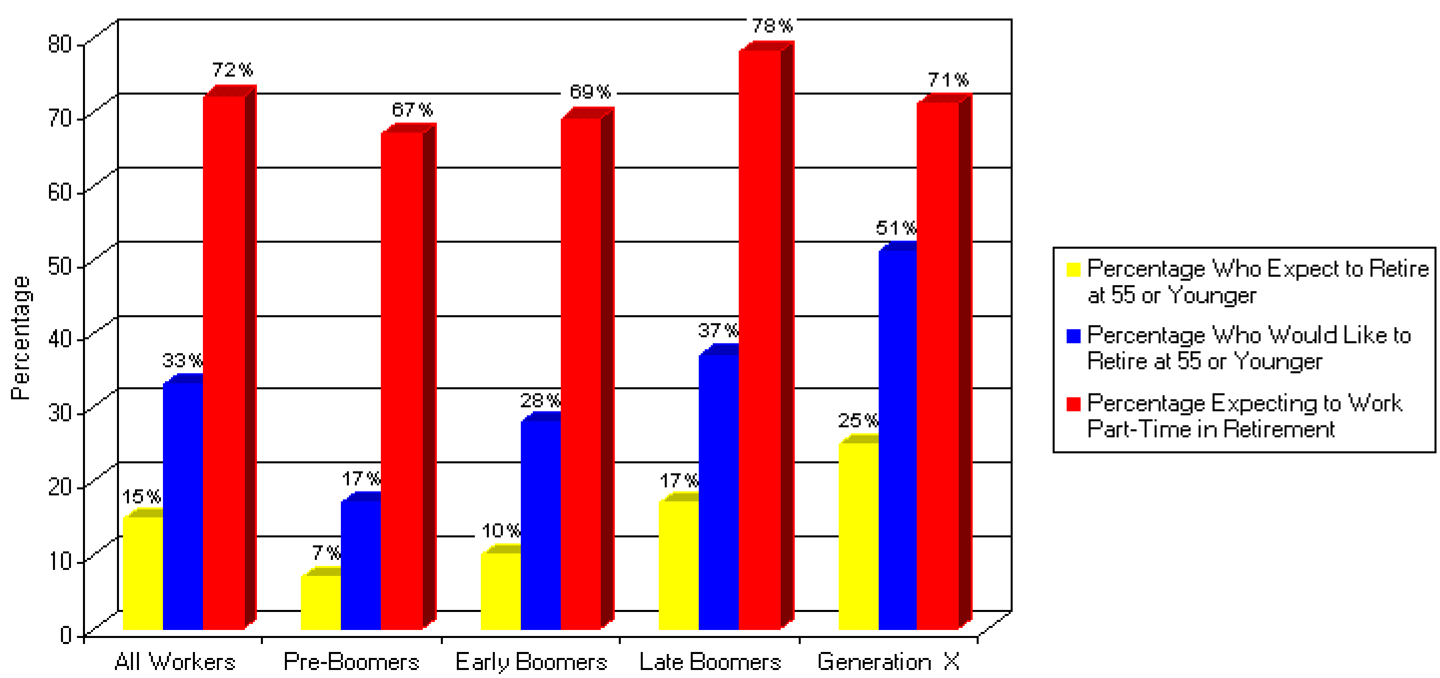
Big Dreams, Little Planning

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.

The Generation Gap:
The younger the persons, the earlier they would like to retire. 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).[1]

Chart 1

RETIREMENT EXPECTATIONS AMONG CURRENT WORKERS



At the same time, many expect to work in 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. For some, but not most, money does appear to be a 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).

The Generation Gap:
Late boomers expect to work more than any other group. Among pre-boomers, 67 percent expect to work; among early boomers, 69 percent; late boomers, 78 percent; and generation X'ers, 71 percent (chart 1).

Where do current workers expect to get their money in retirement? More than one-half (51 percent) expect some form of personal saving to be their most important source of retirement income.

The Generation Gap:
The younger the persons, the more they expect to rely on personal savings. Forty-two percent of pre-boomers, 43 percent of early boomers, 55 percent of late boomers, and 61 percent of generation X'ers expect monies to come from this source.

Planning or Lack Thereof

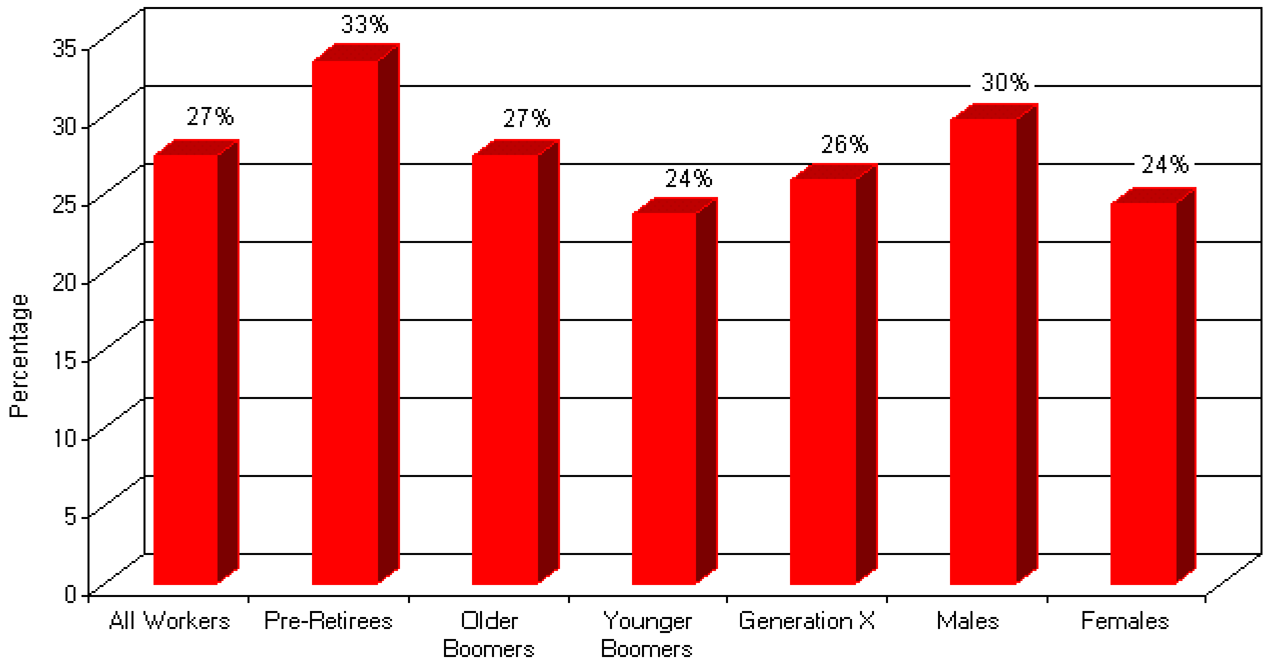
Despite the fact that many workers would like to retire relatively early and the fact that most workers expect personal savings to be a major source of income once they are retired, only 36 percent of current workers have tried to determine how much they need to save by retirement to fund a comfortable retirement. 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 of how much they need to save and accumulate for retirement (chart 2).

The Generation Gap:
Planning is low but, unsurprisingly, increases as a person gets closer to retirement. Thirty-three percent of pre-boomers have a retirement saving goal, compared with 27 percent of early boomers, 24 percent of late boomers, and 26 percent of generation X'ers.

The Gender Difference:
Thirty percent of men have a retirement saving goal, compared with 24 percent of women.

Chart 2

WORKERS WITH A RETIREMENT SAVINGS GOAL



The implications of this 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.

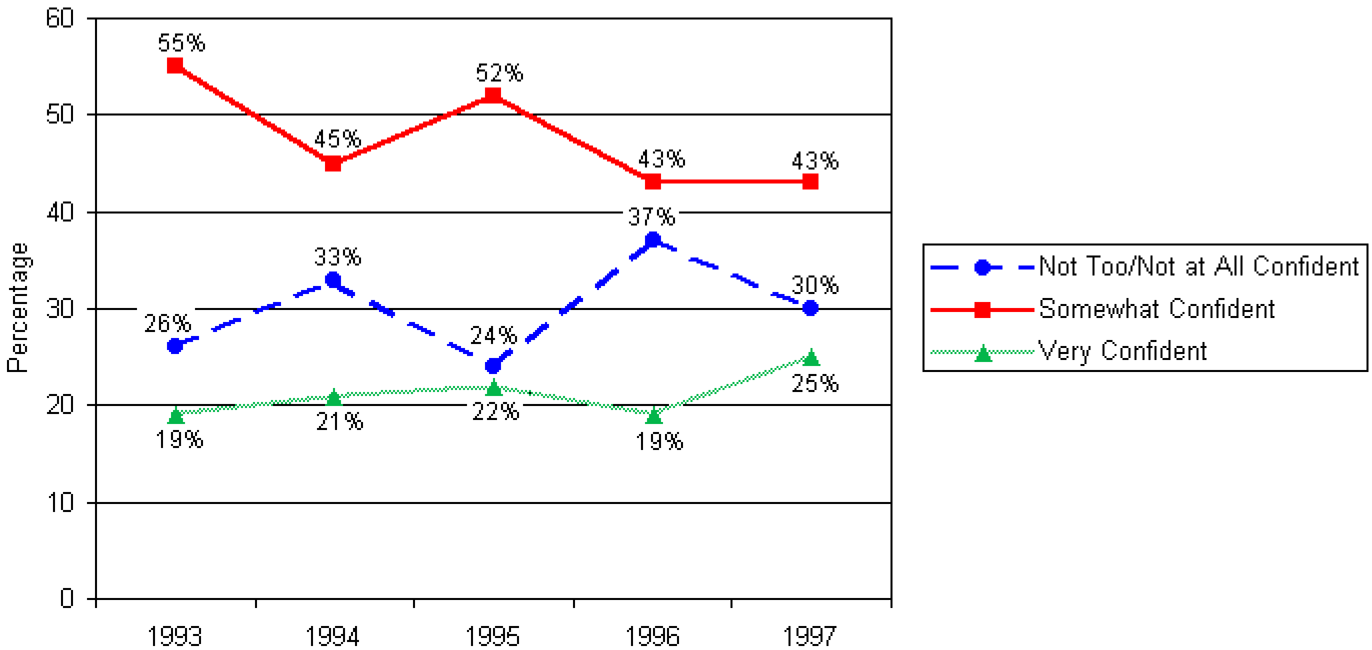
Retirement Confidence

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 their retirement years. While the absolute magnitude of this number may be surprising, the fact that such a sentiment is widespread among the population should not be. What is surprising is the "not me, but everyone else" attitude displayed by many current workers in this regard. 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 (chart 3).

Chart 3

WORKER CONFIDENCE IN THEIR OVERALL RETIREMENT INCOME PROSPECTS



Confidence in Personal Preparation

Thirty-two 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. Therefore, confidence in personal financial preparation is greater than overall confidence in retirement income prospects. This holds across generations. The implication is that there are things people view as being beyond their control, such as unforseen medical expenses and/or cutbacks in Social Security and Medicare benefits, that they worry may have negative financial consequences for their retirement.

The Generation Gap:

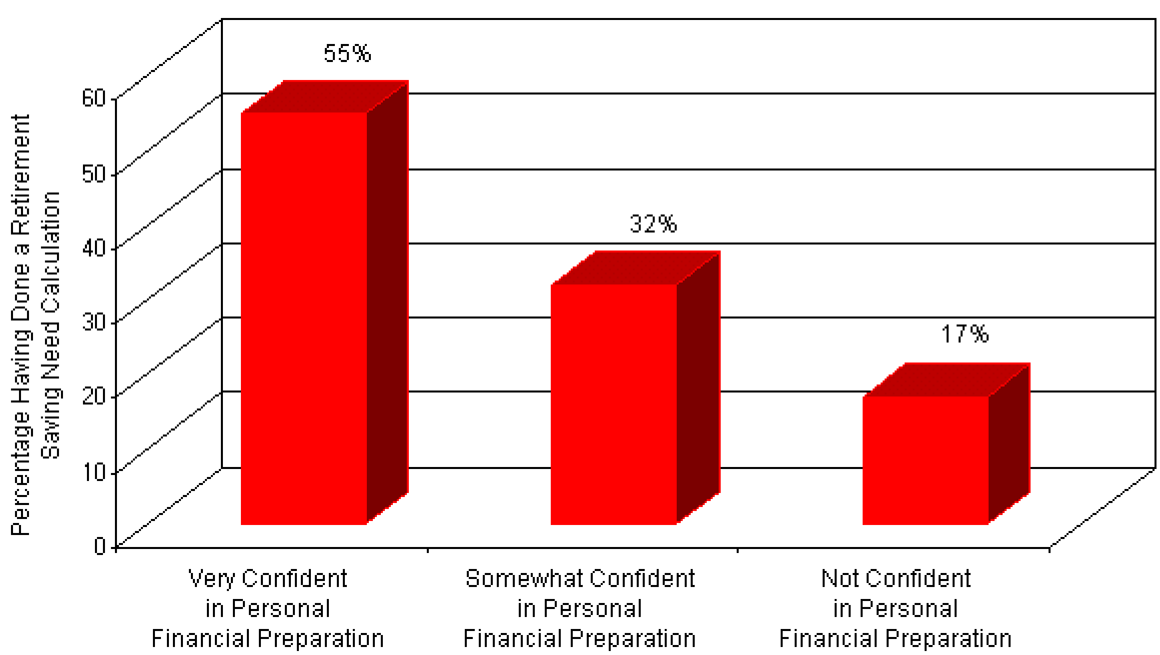
Confidence in personal financial preparation is generally lower the younger the worker. Late boomers are the least likely to be very confident in their financial preparations for retirement (27 percent), and generation X'ers are the most likely to be not at all confident in their financial preparations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

The Gender Difference:
Working men tend to be more confident than working women. Thirty-two percent of men are very confident in their overall retirement income prospects, compared with 18 percent of women. At the other end of the confidence scale, 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.

False Confidence?
Even among workers who are confident, the question remains: is this confidence justified? 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 4).

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. This demonstrates that doing the calculation is only a first step and in and of itself does not generate personal confidence. Apparently, some may even have their confidence shaken by such an exercise, and this is probably a good thing for many!

Chart 4
FALSE CONFIDENCE?



Expectations versus Reality: 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. The RCS again found that a sizable 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 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.

The Gender Difference:
Twenty-seven percent of retired women report that their standard of living has declined in retirement, compared with 21 percent of retired men. While 49 percent of retired men are very confident that they will have enough money to live comfortably throughout retirement, only 31 percent of retired women are very confident (28 percent of women are not confident in this regard, compared with 22 percent of retired men).

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 an additional 41 percent cited health 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. 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.

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 saving 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 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 having 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 between $10,000-$50,000, and 13 percent of both X'ers and late boomers reported accumulations of over $50,000.

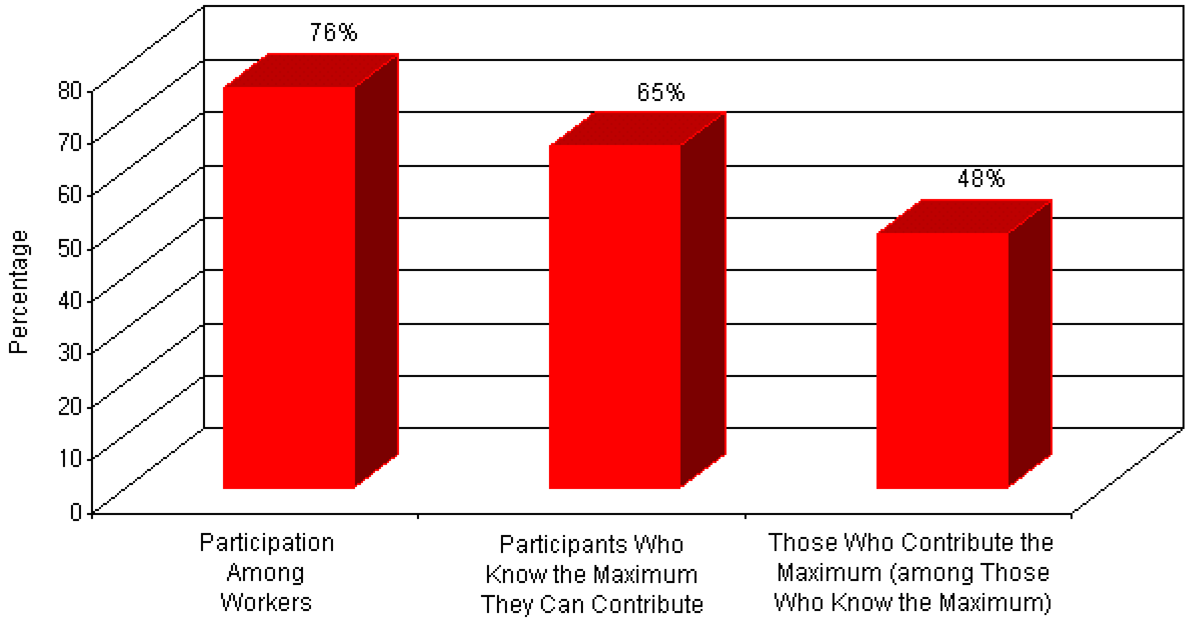
Saving Through Work: Education and Information Help

According to the RCS, 76 percent of workers offered a 401(k) or similar retirement saving plan at work choose to 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 5). 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.

The Gender Difference:

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).

Chart 5
Worker Usage of 401(k) and Similar Plans



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. The vast majority, 86 percent, report utilizing the 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 led them to change the allocation of their money among the investment options offered, and 38 percent said that it led them to change the amount they contributed to the plan.

IRAs: Underused and Misunderstood

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.

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.

The Generation Gap:
Almost one-half (47 percent) of generations X'ers have never looked into making a deductible IRA contribution, compared with 27 percent of pre-boomers. Twenty-one percent of pre-boomers find the IRA eligibility rules very clear, compared with 12 percent of generation X'ers.

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

Will Social Security and Medicare Stand by Me?

As Americans consider their future retirement, one of the major differences in perception occurs in how they view government involvement.

The Generation Gap:
Reliance on Social Security falls dramatically between older and younger workers. Twenty-one percent of pre-boomers believe Social Security will be their most important source of retirement income, compared with only 5 percent of generation X'ers.

Many Americans do not understand the debate over the Social Security program's long-term financial condition. Thirty-six percent of those surveyed reported that they are not confident that they have a good understanding of how the Social Security system works. 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 will be unable to pay any benefits or (2) the system will have fewer assets and will have to pay out benefits at a reduced level. Thirty percent incorrectly chose 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).

The Generation Gap:
The younger the individual, the more likely this response. Nearly one-half (48 percent) of generation X'ers believe trust fund exhaustion means the system is bankrupt, 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.

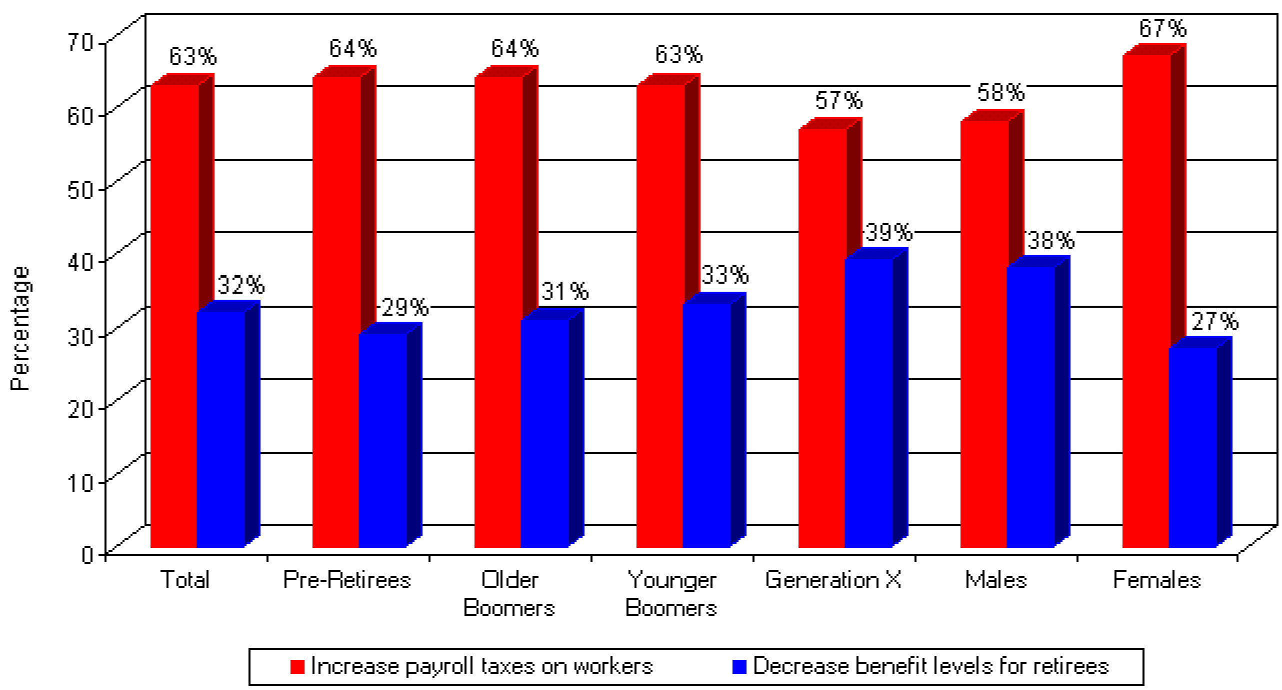
Assuming that adjustments or changes must be made to the Social Security system to ensure its financial viability in the future, RCS survey respondents were asked to choose between increased payroll taxes on workers or decreased benefit levels for retirees. When forced to make a choice, 63 percent chose increased payroll taxes, and 32 percent chose reduced benefit levels (chart 6).

The Generation Gap:
The majority of each generation chose increased payroll taxes, although generation X'ers were the least likely to favor it (57 percent).

The Gender Difference: Sixty-seven percent of women chose increased payroll taxes, compared with 58 percent of men.

Chart 6

IF FORCED TO CHOOSE, AMERICANS' PREFERENCES FOR SOCIAL SECURITY REFORM



With regard to 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. In fact, 46 percent of workers do not believe that the Medicare program will still provide health insurance when they retire. This may account for why 36 percent of workers are not confident that they will have enough money to take care of medical expenses.

The Generation Gap:
Sixty-four percent of generation X'ers feel Medicare will not be there when they retire, compared with 55 percent of late boomers, 42 percent of early boomers, and 21 percent of pre-boomers.

The Gender Difference:
Women are more likely than men to feel Medicare will not be there for them (51 percent, compared with 41 percent.)

Assuming that changes must be made to the Medicare system to ensure its future financial viability, Americans were then asked to choose among three generic reforms. The most preferred reform was changing Medicare to resemble an 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.

Conclusion

There is both good news and cause for concern in the 1997 RCS findings. More workers than ever are saving for retirement. Younger Americans in particular are assuming responsibility for their future, and realize that the government, and even employers, cannot, or will not, be the main source of their future retirement funds.

However, 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 an individual be truly confident in his or her retirement income prospects?

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 the decisions they make. This is encouraging news, especially because more remains to be done in the campaign for retirement income security.

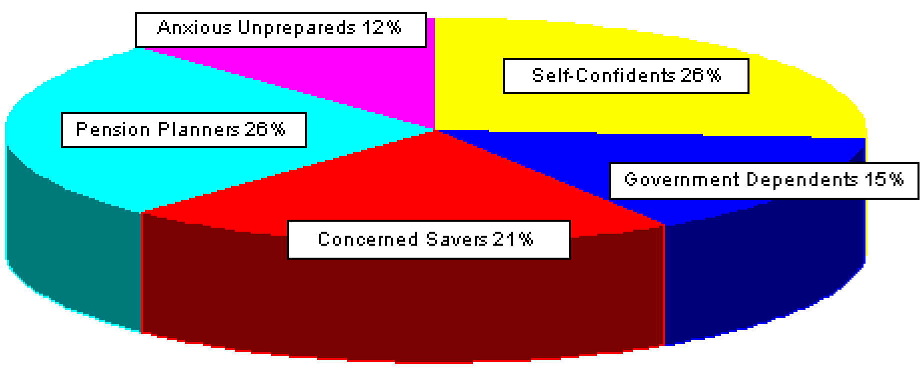
The next challenge faced by plan sponsors, service providers, policymakers, the media, and other parties is to create retirement planners who then save accordingly. The task will not be easy; many workers see no value in such efforts because they do not feel they could save more, and besides, retirement is so far away. Moreover, at a deeper level, some simply want to hide from reality and hope things will work out. For some, "more and better" education may seem to be a simple-minded answer to a complex issue. But better answers are not readily apparent, and in truth, this may be the most cost-effective approach to ensuring Americans' retirement security. Failure 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 programs such as Social Security, Medicare, and Medicaid.

Segmenting the American Population

Survey respondents (both workers and retirees) 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.

Chart 7

SEGMENTING THE AMERICAN POPULATION



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

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

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

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

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

Self-Confidents (26%)

- Young (74% under age 55)
- Highly educated (49% have at least a college degree)
- Highly likely to be single
- Starting families (20% have one child under age 18)
- Many self-employed (19%)

Pension Planners (26%)

- Middle-aged (46% age 35 to 54)
- Married (75%)
- High Income (40% earn $50,000 or more)
- Few children (67 % have no children under age 18)
- Well educated (19% have post-graduate work or degrees)
- Men (57%)

Concerned Savers (21%)

- Young to middle-aged (26% under age 35, 54% age 35 to 54)
- Middle-income (26% earning $35,000 to $49,000)
- Larger families (36% have two or more children)
- Workers (59% work full time)
- Women (58%)
- All Education Levels

Government Dependents (15%)

- Oldest segment (54% age 65 or older)
- Retired (47%)
- Highly likely to be widowed (25%)
- Less education (52% have a HS degree or less)
- Low income (43% earn under $25,000)
- Women (59%)
- Few children at home (80% have no children under age 18)

Anxious Unprepareds (12%)	All ages Women (61%) Less education (60% have HS degree or less) More likely to be divorced or separated (28%) Low income (57% earn less than $25,000) Parents (45% have children under age 18)

- Majorities of both Self-Confidents and Pension Planners would like to and expect to retire before reaching age 65. Eight out of ten in each group have personally saved money for retirement. 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.)

- Eight out of ten Anxious Unprepareds, Concerned Savers, and Government Dependents have not attempted to figure out 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.

- 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.

- 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 over payroll tax increases. When forced to choose among changes to the Medicare system, Government Dependents appear to prefer raising the eligibility age to increasing taxes or making Medicare like an HMO. Self-Confidents, Anxious Unprepareds, and Concerned Savers would prefer to see Medicare changed to resemble an HMO.

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[1] Pre-boomers consist of those born in 1945 or earlier; these individuals are currently 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.