

## 2011 RCS FACT SHEET #7

### The “New Normal”

The 21<sup>st</sup> wave of the Retirement Confidence Survey (RCS) finds that Americans’ confidence in their ability to afford a comfortable retirement has plunged to a new low at the same time that the recent declines in other retirement confidence indicators appear to be stabilizing. Instead of making fundamental adjustments to their spending and saving patterns in response to the decline in confidence, workers continue to change their expectations about how they will transition from work to retirement in what has been called an age of “the new normal.”

As referred to here, the “new normal” reflects the various forces causing many Americans to delay retirement: federal, state, and local government fiscal crises that are described as requiring permanent changes in programs and policies; rising health care costs with a no clear path to control; low interest rates and investment returns; longer life expectancies; later retirement ages for Social Security; less job security; and various other long-term factors—including, perhaps most importantly, the slow movement of the Baby Boom generation into the “senior” years, which will take the proportion of the population over the age of 65 from under 14 percent today to over 21 percent before the last boomer retires.

As evidence of this proposition, Figure 1 (next page) shows a comparison of average confidence in having enough money for a comfortable retirement for workers responding to the 2010 RCS vs. this year’s workers. The average confidence was plotted against the empirical age-specific retirement preparedness for each of four quartiles. Workers in the first quartile had the lowest degree of actual preparedness,<sup>1</sup> whereas those in the fourth quartile had the highest. In general, if workers whose actual preparedness was below where they should be at their age became more realistic with respect to their confidence levels, one would expect to observe a significantly lower average confidence in 2011 compared with the 2010 level. That is indeed what is observed for the first quartile in Figure 1 (an average of 2.25 in 2010 dropping to 2.11 in 2011). However those who whose age-specific preparedness is relatively high (i.e., those in the fourth quartile) would not be expected to have much of a difference between the 2010 and 2011 levels (which is precisely what is observed in Figure 1 as both years have an average fourth quartile confidence of 2.91).

For other discussions on “the new normal,” see links below:

President Obama, CBS News [60 Minutes](#), Nov. 7, 2010.

[“PIMCO’s Cyclical Outlook and the New Normal,”](#) October 2009.

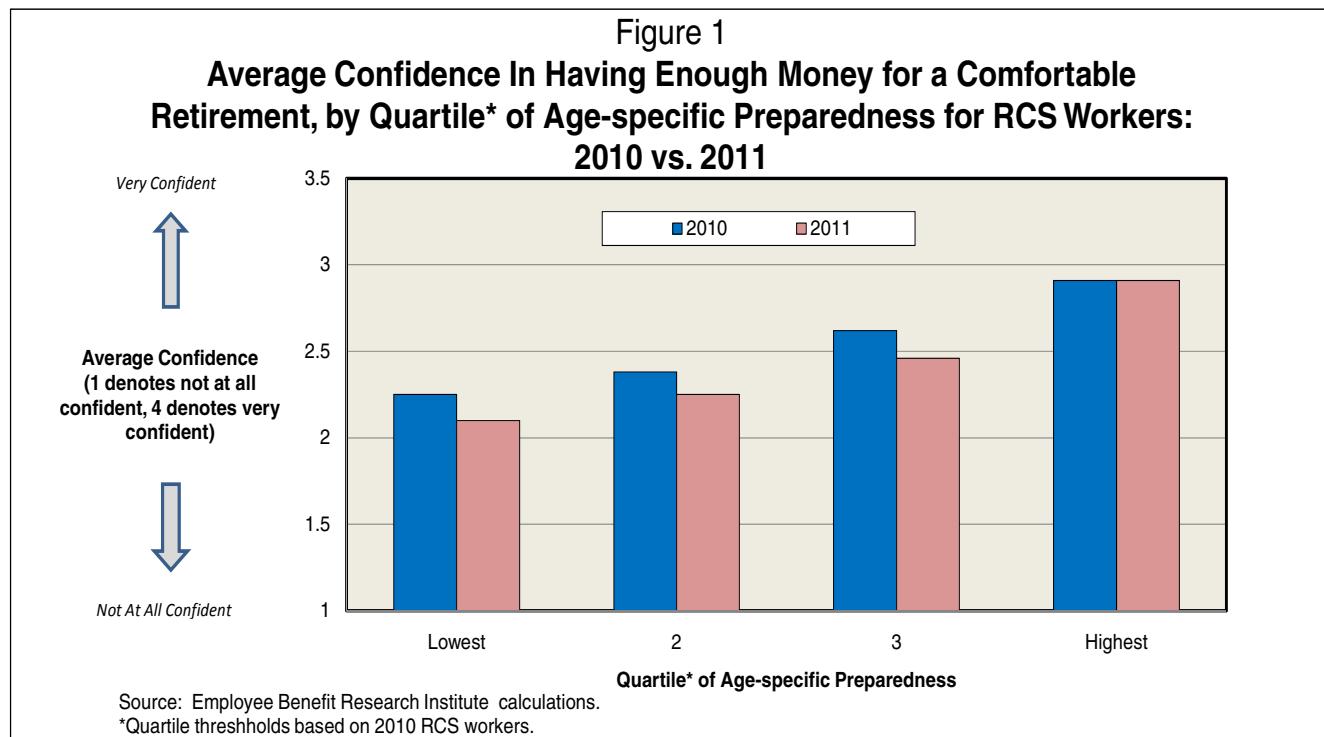
Saumil H. Parikh, “Courage Must Trump Popularity in the New Normal,” [PIMCO Viewpoints](#), July 2010.

Roger Cohen, “The New American Normal,” [The New York Times](#), Sept. 27, 2010.

Robin Fazad, “The New Normal is So Normal,” [Bloomberg/Business Week](#), Dec. 16, 2010.

<sup>1</sup> Actual preparedness is proxied by the ratio of: (1) the midpoint of the range of current savings divided by the midpoint of the range of current income divided by (2) the predicted savings/income ratio needed to produce a 75 percent nominal replacement ratio when combined with average current Social Security replacement ratios. The

calculation assumes the worker starts saving at age 25 and retires at age 65. A linear trend is assumed for the predicted savings/income ratio during the working career although more technically correct approximations (e.g., exponential curves) produce a similar conclusion.



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