

Mathew Greenwald Remarks
2005 Retirement Confidence Survey
April 5, 2005

Thank you, Dallas. Good morning!

The Retirement Confidence Survey, or RCS, has been tracking the attitudes and behaviors of American workers and retirees since 1991. As Dallas has indicated, this period of time has seen great change in the employer-sponsored leg of retirement security and great uncertainty about government-sponsored entitlement programs.

Yet many workers do not appear to have stepped up to the challenge of ensuring their own financial security in retirement. Three in 10 workers admit they have not saved money for retirement, and more than half of all workers say that the total value of their savings and investments, excluding the value of their primary home, is less than \$25,000. Why do workers have so little? And what can be done to stimulate saving? The RCS suggests some answers.

First, while many American workers acknowledge a shortcoming in their retirement planning and saving, they are more likely to blame it on the required cost of living than their own habits. More than half of workers say they are behind schedule in planning and saving for retirement. These behind-schedule workers are most likely to say high expenses play a role in keeping them behind, and less likely to think wanting a comfortable lifestyle or lack of financial discipline keeps them back.

Still, many of these workers could save on at least some expenses if they were more disciplined in their spending habits. More than 6 in 10 behind-schedule workers spend money once a week or more often on a meal in a restaurant or takeout, and a similar proportion spend money this frequently on items purchased from vending machines or convenience stores.

In addition, many workers may not realize the extent to which debt is limiting their ability to save for retirement. Two in 10 workers describe their current level of debt as a major problem, and 4 in 10 say it is a minor problem. Half of workers say they have credit card debt.

Second, many American workers are confident about their financial situation in retirement and this confidence may keep some from rationally examining their retirement preparations. One-quarter of workers are very confident they will have enough money to live comfortably throughout their retirement years, and 4 in 10 are somewhat confident. Even 37% of workers who have not saved for retirement are confident about their retirement financial security.

The RCS suggests that many American workers may be overestimating their prospects for a financially secure retirement. Consider these facts about workers who are very confident they will have enough money for a comfortable retirement:

- 20% are not currently saving for retirement
- 38% have less than \$50,000 in savings
- 37% have not done a retirement needs calculation
- 35% say their level of debt is a problem

Third, many workers may be hoping to achieve retirement security by other means than by saving. Some may think they will be able to sharply reduce their expenses in retirement without making great sacrifices in lifestyle. Almost 6 in 10 workers think they will need less than 70% of their preretirement income to live comfortably in retirement, and 8 in 10 think their financial lifestyle in retirement will be at least adequate. Yet half of retirees say they currently use 70% or more of their preretirement income to fund a lifestyle that is adequate or better.

In addition, many workers expect that they can correct deficiencies in their retirement planning by working longer or by working in retirement.

18% of workers age 45 and older say that, in the past year, they have postponed the age at which they plan to retire. Most of those who make this decision do so for economic reasons: to make up for losses in the stock market, lack of confidence about Social Security, concern about a poor economy, and generally wanting to make sure they are financially secure.

While the average retiree today retired at age 62, the average worker today plans to retire at age 65. One-quarter plan to retire at age 66 or even later. But historically, approximately four in ten retirees retire earlier than planned, usually due to poor health or job loss. So for at least some, it is likely that these plans to work longer will not be realized.

Two-thirds of workers plan to work for pay in retirement. This is more than twice the proportion of retirees who say they actually have worked for pay. Most workers who say they will work in retirement give financial motives for doing so.

The relationship of work and retirement is changing. People are beginning to work longer, and it is probable that many more retirees will work in retirement. But not everyone will be able to work longer or work in retirement, and some who hope to rely on these strategies to help make up for poor retirement planning may find themselves with inadequate financial resources in retirement.

While all of this paints a gloomy picture, the RCS also points to ways of stimulating retirement planning and savings. First, the simple act of doing a retirement savings needs calculation changes retirement savings behavior. Only 4 in 10 workers have tried to calculate how much they need to save for a comfortable retirement, but of those who have done a calculation more than 4 in 10 say they have made changes as a result, usually starting to save more. And while these workers tend to think they need to save more than others, they are also more likely to consider themselves ahead or on track in their retirement planning and saving.

Only 3 in 10 workers say that they have an IRA opened with money saved outside of an employer's retirement plan, but more than 8 in 10 eligible workers in the RCS report they participate in their employer's retirement savings plan. Participation might be even higher if automatic enrollment that defaults workers into the saving option were a standard feature of these plans.

Workers generally accept automatic enrollment. Two-thirds of workers who do not contribute to their employer's retirement plan nonetheless say they would stay in the plan if their employer automatically enrolled them. Moreover, half of nonparticipants described their feelings about automatic enrollment as positive.

A high employer match is another strategy that is likely to attract additional participation. Seven in 10 nonparticipants say they would be more likely to participate in their employer's plan if it offered matching contribution of up to 5% of salary.

Employers can help workers already participating in their plan to make more informed investment decisions by adding lifecycle and lifestyle funds. Among participants not already offered each type of fund, almost 7 in 10 say they would be likely to use a lifecycle fund, while two-thirds say they would be likely to use a lifestyle fund. About half say they would be likely to use a managed account.

Finally, increasing in-person access to professional financial advice—whether through a workplace retirement plan or through other channels—is another step that could help more workers adequately save for retirement. When asked what would be most useful in helping to save for retirement, workers are more likely to name a professional financial advisor than anything else. Workers who have already used professional advice also say that this information source was the most helpful when making retirement savings decisions. And while some workers may be comfortable obtaining this advice by telephone and online, the delivery method of choice remains a face-to-face meeting.

Thank you! Now I would like to turn back to Dallas Salisbury.