

## Mathew Greenwald's Comments

### 2016 Retirement Confidence Survey

March 22, 2016

Thank you Craig, and good morning. I would like to start by describing what American workers are actually doing, as they themselves describe it, to prepare for retirement. The proportion of workers, including their spouses, who have saved anything at all for retirement, which reached 78% in the year 2000, was at 75% in 2009, is now at 69%. The proportion who are currently saving, which was 65% in 2009, is now at 63%. Progress on saving for retirement has improved in the past two years. Only 57% saved for retirement in 2014. But if we take a longer time perspective we have slipped back a little. Relatedly, the amount of money that American workers have saved is alarmingly low. A little over half, 54%, have less than \$25,000 in savings and investments.

With that background, I would like to address what I consider to be a disturbing trend. The Retirement Confidence Survey has measured workers confidence that they are doing a good job of preparing financially for retirement each and every year since 1993. Interestingly, confidence in the effectiveness in personal action appears more driven by events in the macro economy than in the actual conduct of the people themselves. Confidence in financial preparation reached a high point in the year 2000, before the correction of the tech bubble and increased economic volatility. Confidence stayed at a fairly high level until the Great Recession and then declined. However, in the past three years, including this year, the proportion of workers who are at least somewhat confident that they are doing a good job preparing financially for retirement has climbed. Now, 28% are very confident that they are doing a good job preparing financially for retirement, it was 17% just three years ago. Now, only 28% are not too or not at all confident that they are doing a good job preparing financially for retirement. But, as I indicated just before, actual savings behavior does not indicate such a good job in financial preparation. In order to take corrective action, it is helpful to evaluate what you are doing, and when it comes to financial preparation for retirement, it appears difficult for many to evaluate the effectiveness of their preparations.

We see this in a couple of other areas. Almost two in three, 63%, are very confident in their ability to do a good job in preparing a budget. However, 32% of workers believe they are saving less than they should. When workers are not saving as much as they themselves think they should, what explains the shortfall in saving? The main reason given is day-to-day expenses. If saving for retirement is important, it should be that better budgeting could often permit greater saving. In past Retirement Confidence Surveys, we asked workers if they could indeed save more for retirement, and in every survey we asked that question, a majority responded that they could save more. Also, 40% of workers state they are very confident in their ability to decide when to claim Social Security benefits, which rise the older the claimant. However, many experts have commented that many workers claim Social Security benefits well before it is financially optimal for them to do so.

I would like to comment on three additional issues. First, it is disappointing that we have not seen a significant rise in the proportion of workers and their spouses who have tried to figure out how much they need to save by the time they retire. The proportion making this effort reached as high as 53% in the year 2000. But it then fell and has been hovering between 42% and 48% during the past 10 years. It is now 48%. The survey reveals many benefits of doing this calculation. Those who have taken the time to do it are more likely to feel confident in being able to afford a comfortable retirement and they have higher, and no doubt more realistic savings goals. However, I should state that there is evidence that the methods used to make these calculations sometimes seem suspect. For example, in the 2015 RCS survey we found that 22% work with a financial advisor, 10% use an online calculator and 6% fill out a worksheet: all of which appear to be effective techniques. However, the survey found that a plurality, 39%, merely guess how much they need. I am concerned about that. It is hard to evaluate

other approaches based on what they report: 26% made their own estimate, 10% read or heard how much is needed, and 6% asked someone other than a financial advisor. It is probable that some of those efforts led to good estimates and some did not. But the bottom line is not enough workers are trying to make an estimate of what they need and among those who do make an effort, some are not doing it well enough. As Yogi Berra once said, "If you do not know where you are going, you are likely to wind up someplace else." When it comes to deciding how much to save for retirement, that statement appears to apply to many workers.

Importantly, the survey demonstrates the effectiveness of workplace retirement plans. Retirement plans at work are clearly effective in getting workers to save. Sixty-six percent of workers who do not have access to a retirement plan at work have less than \$25,000 saved for retirement, compared to 42% who do have access to a plan. Second, retirement plans offer access to financial and investment advice that many workers believe is valuable. Fifty-three percent of workers who are participating in a workplace retirement plan have sought out education and advice from their retirement plan provider. When asked which source of advice they would use if needed, workers participating in a retirement plan are most likely to identify their retirement plan provider or an independent financial advisor.

Finally, I would like to comment that while we have heard a lot about online advice, only 2% of American workers are very interested in getting advice from an online provider and only 15% are somewhat interested. Just 6% have gotten advice from an online provider. There is clear preference among workers for in-person advice. Interest in online advice will certainly grow, but this survey indicates much higher interest in the ability to talk to an advisor, in person or over the telephone. And now I would like to turn this back to Craig Copeland.