Mathew Greenwald Remarks
2006 Retirement Confidence Survey
April 4, 2006

Thank you, Jack. Good morning!

The Retirement Confidence Survey, or RCS, has been tracking the attitudes and behaviors of American workers and retirees since 1991. During that time, we have found a great deal of continuity in how Americans anticipate and prepare for retirement. Yet the world is changing around them, and their attitudes and plans are not keeping up with reality.

Americans are living longer and healthier lives than ever before, and people can look toward many active years in retirement. But at the same time, as employers pull back on the retirement benefits that they offer, workers have more responsibility than ever before for ensuring that they have the financial resources to enjoy those years. Many do not appear to be stepping up to the challenge.

- According to the Survey of Consumer Finance, American homeowners received a windfall as median housing values soared between 2001 and 2004. But most squandered that windfall, and median net worth increased by only 1.5%.
- The proportion of American workers who have saved for retirement has remained unchanged since 2001 at roughly seven in ten.
- More than half of workers reporting assets in the RCS say the total value of their household's savings and investments, excluding the value of their home and any defined benefit plans, is less than $25,000. Although savings increase with age, more than four in ten of workers age 55 and older say their assets total less than $25,000.

Retirement will make up a significant proportion of most people's lives. Why are people neglecting to prepare for it? I believe it can be traced to three things.

First, as the RCS finds, many workers don't know how much money it takes to have a comfortable retirement. Only four in ten workers say they have attempted to do a calculation. And, when probed, some of those admit they guess or base their estimate on what they have heard or read. Further, while most workers would prefer to maintain or better their lifestyle when they retire, half think they can be comfortable with 70% of their pre-retirement income or less.

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 44% of workers who have not saved for retirement are confident about their retirement financial security.

The RCS suggests that some 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:

- 22% are not currently saving for retirement
- 39% have less than $50,000 in savings
- 37% have not done a retirement needs calculation

Third, many workers are basing their retirement planning on assumptions that may or may not prove true.

- For example, 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 workers, 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. While many of these workers will undoubtedly work in retirement, it is unlikely that all who would like to work will be able to do so.
- Some workers may be overestimating how much income their accumulated savings will generate. Even two in ten of those who say they and their spouse have not saved for retirement mention some form of savings as their largest source of retirement income.
- While six in ten workers report they expect to receive retirement income from a defined benefit pension, only four in ten report that they and/or their spouse currently have this type of plan. This means that up to 20 percent of workers are counting on getting this benefit from a future employer—a scenario that is becoming increasingly unlikely as companies cut back on their defined benefit offerings.
- Almost four in ten workers expect that they will receive retiree health insurance from an employer—making them as likely to expect this benefit as current retirees are to receive it.

This paints a gloomy picture, but the RCS also points to ways of stimulating retirement planning and savings. Some of the most effective are through the workplace. Almost half of workers say they received information on retirement planning through an employer in the past 12 months. Three in ten of those who received this information report they made changes as a result, usually increasing their savings or changing their investment mix.

More than eight in ten eligible workers in the RCS report they participate in their employer's retirement savings plan, making this type of savings vehicle far more effective than an individual retirement account, or IRA. Only about one-third of workers say that they have an IRA opened with money saved outside of an employer's retirement plan.

Employment-based retirement plans, meaning 401(k) plans, could be made even more effective through automatic features that default workers into savings options.

Both current participants and non-participants generally feel favorably toward these automatic features as long as an opt-out is available:

- Seven in ten participants and non-participants say they favor automatic enrollment and set up of contributions through payroll deduction.
- Two-thirds of participants and six in ten non-participants favor automatic increases in the percentage of salary contributed to the plan.
- Six in ten participants and non-participants favor automatic investment of contributions.

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.

More than seven in ten workers express interest in a lifecycle fund for their automatic investment option. Similar proportions say they are interested in balanced funds and professionally managed accounts.

However, workers are most comfortable with their own investment choices. Half would trust their own investment decisions over an automatic fund option. This makes investment education a vital component of retirement planning. More than one-quarter of workers say an employer currently offers them access to investment advice, and about half of these workers received recommendations on how to invest their savings. While some workers may be comfortable receiving this advice online or over the telephone, the delivery method of choice is a face-to-face meeting. More than seven in ten workers not currently offered this type of advice say they would be likely to use it if it were offered in this format.

Thank you!