Mathew Greenwald Remarks
2007 Retirement Confidence Survey Briefing
April 11, 2007

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. The world has changed since then, and Americans today must prepare for retirement in an environment that is substantially different than that of 16 years ago. Employers are pulling back from their role in ensuring a secure retirement for their retirees, and government entitlement programs are under threat. At the same time, Americans are living longer and healthier lives than ever before, and people can look forward to many years in retirement.

The RCS points to five transitions—not all of which are negative—that are impacting the retirement security of American workers. These changes combine to create an environment in which workers must take more responsibility for securing their own retirement, but also one in which planning tools and assistance are increasingly available. Unfortunately, as we shall see, the RCS finds that many workers do not understand these transitions or are slow to react to them.

First, employers are shifting away from providing defined benefit pension plans.

- Changes to the pension system in the past few years have caused nearly half of workers to feel less confident about the amount of money they can expect to receive from a defined benefit pension plan.
- Still, more than 6 in 10 workers continue to expect to receive some retirement income from a pension plan. Many of these workers may be counting on benefits they will not receive, since just 41 percent report they currently have this type of plan.
- Among workers who have personally experienced reductions in the retirement benefits offered by their employer, nearly 2 in 5 indicate that they have done nothing in response to these reductions.
- One-third of American workers have not saved for retirement, and this proportion has not changed for more than five years. About half of workers in the 2007 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, 3 in 10 workers age 55 and older say their assets total less than $25,000.

- Workers do recognize that they will have to rely on personal savings for income in retirement, and half of workers report that some sort of savings will provide their largest source of income in retirement. However, only 43 percent have tried to calculate how much money they will need for retirement, so many may not realize just how much money they really need to accumulate to sustain their desired lifestyle throughout retirement.

The second transition facing workers is that many employers are eliminating health care coverage for future retirees.

- Even so, 2 in 5 workers continue to expect employer-provided health care coverage in retirement. This makes them as likely to expect this coverage as current retirees are to report having it.
- Many Americans may not be adequately factoring health care costs into their retirement planning. One-third of workers think they will need less than $100,000 in retirement to cover health care, nursing care, prescription drugs, and health insurance. Almost a quarter have no idea how much money they will need for these health expenses.
- Moreover, many workers erroneously think they do not need or are already covered by long-term care insurance. Even though studies have found that 30 to 40 percent of those reaching age 65 will use nursing home care before they die, only 1 in 10 workers think it is very likely <u>they</u> will need long-term nursing care at some point in their lives. And despite the fact that estimates of long-term care insurance policy use show that 10 percent of Americans age 65 and older have private long-term care insurance, one-quarter of workers say they have such coverage.

Third, given the cut-backs in pensions and retiree health insurance, workers need to have smart strategies for managing their savings. However, the strategies workers plan to implement may not serve them well when it comes to making their savings last through a long retirement.

- Three-quarters of workers say they plan to strike a balance between maintaining their standard of living and making their savings last as long as possible when managing their retirement savings.
- To do this, the majority of workers plan on using simple strategies, taking only what they need to cover their expenses or leaving their savings untouched for as long as possible. They shy away from relatively more

complex strategies, such as taking only earnings on investments or a constant percentage.

- Perhaps workers think these approaches will be successful because they think that the likelihood of exhausting savings is remote or they can solve problems simply by cutting back on their spending. Indeed, almost half of workers think they are not likely to live long enough to use up all of their savings, and 84 percent agree that they can cut back on their lifestyle in retirement to preserve their savings.
- Yet more than half of workers already think they will spend less money in the first five years of retirement than in the five years prior to retiring. In contrast, more than half of retirees report spending the same amount of money or <u>more</u> in retirement than in the five years before.

Fourth, legislation passed 24 years ago gradually increased the Social Security normal retirement age from age 65 to 67. However, half of workers believe they will be eligible for benefits sooner than they actually will, and 20 percent do not know when they will be eligible. Although most workers are not expecting to rely on Social Security for a major source of retirement income, they may still be unpleasantly surprised when they find they must choose between delaying the age at which they begin collecting Social Security or receiving a reduced monthly benefit.

Finally, professional investment advice is becoming more available than ever before, yet many workers may not take advantage of it or use it to their best advantage.

- While companies that manage employer-sponsored retirement plans can now offer investment advice to participating employees, only 1 in 5 workers say they would be very likely to take advantage of such a service. Another third say they would be somewhat likely.
- Workers also show hesitancy when it comes to using the recommendations provided by this type of service. Two-thirds of those who would be likely to use this type of service indicate they would only implement those recommendations that were in line with their own ideas, and 1 in 10 would implement none of the recommendations.
- Additionally, the Internet is becoming an ever more important vehicle for communication between retirement plan providers and participants. But, many workers still have reservations about using it for financial activities.

Just 43 percent of workers are comfortable shifting money between accounts online, 34 percent are comfortable obtaining advice from a financial professional online, and only 29 percent feel comfortable purchasing financial products online. Older workers are especially likely to express discomfort using the Internet for these activities.

In short, workers are facing many changes in the overall retirement and benefit systems. These changes are placing increased responsibility on individuals to plan capably for retirement, but Americans may not be taking the steps to ensure a financially stable retirement.

So, is there any good news?

There is. Evidence suggests that Americans who use planning tools or get advice from reliable sources are better equipped to recognize the changing conditions of retirement benefits and plan accordingly.

- The act of doing a retirement needs calculation continues to be associated with better retirement planning behavior. Workers who have calculated their accumulation needs for retirement report spending more time on retirement planning, a higher propensity to consider the length of their retirement when planning, and greater likelihood that their post-retirement spending will equal their pre-retirement spending. They are also more likely to be saving for retirement, to have nonretirement savings, and to have accumulated at least $100,000 in assets.

Three in 10 workers report they have sought investment advice from a financial professional in the past year. These workers also tend to exhibit an increased level of preparedness for retirement. They are more likely than those who have not consulted a professional to have done a retirement needs calculation and to have higher retirement savings goals. And particularly among workers with less than $75,000 in household income, they are more likely to feel confident about their retirement preparations.

Thank you!