Mathew Greenwald Remarks

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2008 Retirement Confidence Survey
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Thank you Jack and good morning.

Because the Retirement Confidence Survey, or RCS, has been tracking the attitudes and behaviors of American workers and retirees annually since 1991, we have an unparalleled perspective on how anticipation of and preparation for retirement has evolved over the past 18 years. This year we surveyed 1,322 people ages 25 and over: the methodology is in the material you have been provided. As we look back from this vantage point I think it is fair to say that three important things have changed; that two important things have not changed; and that there is one key to the retirement security of future generations.

First, let me address what has changed. Any survey whose name includes retirement confidence must address how confident people are that they will be able to afford a reasonable lifestyle throughout their retirement. For years, confidence in being able to have a financially comfortable lifestyle remained fairly steady without major year to year movement, including through a surge of good times in the later 1990s and the downturn and fear following 9/11. But in this year, 2008, and the first change I want to address, we have the biggest drop in confidence in the history of the RCS. The proportion of workers who are *very* confident that they will be able to live comfortably throughout their retirement went down to 18% this year, from 27% in 2007. Overall, the proportion of workers *very* or *somewhat* confident is now 61%, a seven-year low.

Retired people are also less confident about their retirement security. In 2008, 29% of retirees are very confident that they have enough money to live comfortably; it was 41% last year.

More has changed than simply confidence in being able to live comfortably throughout retirement. Related attitudes suffered declines as well. The proportion of workers and retirees who are confident that they will be able to afford even basic expenses in retirement went down. Now only one-third of workers and retirees are very confident they will be able to afford even basic expenses. Last year it was 40% of workers and almost half of the retirees.

The retirees' drop in confidence is revealed in a number of areas. Last year 70% said they could cut back on their lifestyle if it looked like they might use up all of their savings; now it is about 62% who feel they have the ability to respond. In 2008, 39% think they are likely to outlive their financial resources, last year it was 31%.

The second change I want to address is confidence in government entitlement programs that are the backbone of the financial security of current retirees. Confidence in Social Security and Medicare has been low for years: it is significantly lower now. 26% of workers are confident that Social Security will maintain current benefit levels; it was 31% last year. The proportion of retirees who are confident that Social Security will continue to provide the same level of benefits dropped 10 percentage points from a year ago. And while worker confidence in the Medicare program remains relatively stable, retirees are now about half as likely as in 2007 to be very confident in Medicare's ability to maintain coverage levels.

Now with reduced confidence in being financially secure in retirement, and low and declining confidence in the government's two main entitlement programs for retirees, one would expect workers especially to change their behavior and start doing more themselves to accumulate enough for retirement. We have seen some adaptation, which I will describe, but we have not seen enhanced efforts at accumulation. Our survey suggests part of the reason for that.

Let me start with one adaptation that workers are making.

For the last several years, we have seen two related developments: 1) actual labor force participation rates of people ages 55 and over inching up and 2) an increase over time in the RCS respondents who say they expect to work to higher ages. In 2008, the average worker expects to work until age 65 and 20% plan to work into their 70s. Ten years ago, the median expected age at retirement was 62 and fewer than 7% planned to work into their 70s.

But two things must be remembered when reflecting on the hope of working longer. First, a longer work life is not something that everyone gets. The median age of retirement has been age 62. Half of retirees say they retired before they planned to, most often because of health problems or disability, company downsizing or closure, or other factors beyond their control. Of those who left the work force before they planned, fully half did so because of health factors or disability.

Also, these days, retiring later does not necessarily mean a shorter retirement. Life expectancy at age 65 is going up too. From 1965 to 1985, according to John Shoven of Stanford University, people worked longer, but average life expectancy at the point of retirement actually went up. So a third change observed by the RCS over time is that the expectation of working longer has been increasing. While this is positive, its impact will be moderated by these other factors.

In the area of actual financial preparation for retirement, we have not seen a change. Indicators of workers retirement savings remains about where they have been for several years. Seventy-two percent now say they have saved money for retirement, a return to the 2001–2006 levels after a dip in 2007.

Savings among the workers who have saved for retirement are modest, at best. Nearly half report total household savings and investments, not including the value of their primary residence, of less than $50,000. Of course, those who have not saved for retirement are in worse shape. Three-quarters of them have financial assets under $10,000.

It is clear that concerns about the present are limiting American's ability to plan for the future. When we asked our respondents what they considered the most pressing financial issue, just 5% of workers and 4% of retirees cited saving or planning for retirement. Instead, most mention making ends meet, paying for health insurance, making mortgage payments, or paying off loans. It is clear those latter issues are important, but they seem to be crowding out sound planning for the future, which is also a crucial issue of the present.

One of the factors contributing to under-saving is the fact that most people have not tried to figure out how much they need to save to be able to live comfortably in retirement. Less than half of Americans have done a calculation of how much they need to save by retirement. Even those who made a calculation often do not seem to have done a very good job. A lot of the calculations seem low, and when questioned about the techniques they had used to come up with their target it becomes clear that many people simply guessed. However, trying to calculate how much is needed is clearly a useful exercise. Of those who have done any sort of retirement needs calculation, 44% made changes, with most of them taking the action of saving or investing more.

The second thing that has not changed and that continues to be an impediment to proper financial preparation for retirement is faulty assumptions about the retirement period. American workers continue to believe that somehow they will be able to get retirement income from sources that are not available to them now. I can understand that while only about 56% of workers have non-workplace savings and investments, 84% expect to have this by retirement. But I cannot understand why 59% of workers expect to have income from a traditional pension plan in retirement, while only 41% say that they have that coverage now. Some say they will get the pension from a future employer, but that seems like wishful thinking to me.

It seems that many also expect their employer to provide them with health insurance when they retire. But at least reality may be setting in: 34% of workers expect to have retiree health insurance, down from about 42% last year. In fact, the actual proportion of workers likely to have this coverage is a lot smaller.

There also seems to be a faulty assumption about how much work people will be able to do after they retire. The RCS has consistently found that about two-thirds of people <u>expect</u> to work after they retire and only about a quarter of retirees <u>actually</u> do work in retirement. Clearly, the expectations of post-retirement work are too high and the assumption of being able to work may be a factor that stops people from saving all that they can or should.

Finally, it seems that there is a faulty assumption among many about how much they will spend during retirement. Fifty-eight percent of workers expect to spend less in retirement than they did before they stopped working. But retirees paint a different picture: Less than half of them have found a decline in spending once they retired. Between health insurance costs, that are often higher after some workers leave heavily subsidized employer health insurance plans, and the spending that seems to often accompany increased leisure time and pent-up demand for travel, retirees often experience higher-than-expected expenditure rates.

The RCS indicates that there is one key to increasing the retirement financial security of the current generation of workers: that is enhanced workplace savings programs and educational and advice programs offered by employers. The RCS surveys show that the workplace can be an effective place to teach employees about retirement preparation. And, of course, offering a retirement plan at work, especially with automatic enrollment, generates more saving. One interesting thing we found in this year's RCS is a clue about how to make retirement calculators—which have been shown to increase saving—more effective. More than half of workers say they would prefer a retirement calculator which collects about seven to 10 pieces of information and then makes a calculation more personalized to their situation, as compared to a calculator that requires less information and gives a more generic answer. Also, 72% of workers prefer a tool that gives a range of answers on a variety of scenarios to one that provides one answer based on the most likely scenario. Thus, there are ways of making our tools better.

From one perspective it is disheartening but understandable that retirement confidence has gone down. However, it is my view that a lot of the confidence observed in previous years was false confidence, and perhaps people are now getting more realistic and this is a precursor to more effective financial preparation for retirement and enhanced financial preparation. I hope this is the case and we will try to give you more insight on the trends next year. But now let me ask if there are any questions about this year's results.

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