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Will More of Us Be Working Forever? The 2006 Retirement Confidence Survey

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- This *Issue Brief* reports findings from the 16th annual Retirement Confidence Survey® (RCS), which suggests that many American workers are not ready to undertake the task of financial planning for their own retirement and face the prospect of having to work far longer than they expect.
- ***Key indicators steady:*** Key indicators of retirement planning have held steady in recent years. The proportion of workers saving for retirement continues at 7 in 10 (70 percent), while those who report having attempted to calculate their savings needs for retirement remains at 42 percent.
- ***Modest savings:*** More than half of workers saving for retirement report total savings and investments (not including the value of their primary residence or any defined benefit plans) of less than $50,000 (52 percent). However, the large majority of workers who have not put money aside for retirement have little in savings at all: Three-quarters of these workers say their assets total less than $10,000 (75 percent).
- ***Expected benefits unlikely to materialize:*** Many workers are counting on employer-provided benefits in retirement that are increasingly unavailable. Only 40 percent of workers indicate they or their spouse currently have a defined benefit plan, yet 61 percent say they are expecting to receive income from such a plan in retirement. Likewise, workers are as likely to expect (37 percent) as retirees are to receive (40 percent) retiree health insurance through an employer, despite the fact that the number of employers offering this benefit is declining.
- ***Unrealistic replacement ratios:*** Worker suppositions about their financial needs for retirement are often based on what appear to be unrealistically low income replacement ratios. While a majority of workers say they prefer a standard of living in retirement that is the same or better than in their working years (59 percent), half think they can maintain a comfortable retirement on 70 percent or less of their preretirement income (50 percent).
- ***Ability to keep working?*** Some workers may have unrealistic expectations about how long they can continue to work. The average retiree today retired at age 62, but the average worker expects to retire at age 65. At the same time, workers are more than twice as likely to expect to work for pay in retirement (67 percent) as retirees are to have actually worked (27 percent).
- ***Some confidence levels not realistic:*** The RCS continues to find that one-quarter of workers are *very* confident about their financial security in retirement (24 percent), while more than 4 in 10 are *somewhat* confident (44 percent). However, at least some of those who say they are *very* confident may be *overconfident*. Twenty-two percent of *very* confident workers are not currently saving for retirement, 39 percent have less than $50,000 in savings, and 37 percent have not done a retirement needs calculation.
- ***Auto-enrollment well received:*** To boost participation, employer plans could be further enhanced by adding automatic options. A majority of employed workers favor automatic enrollment (69 percent), automatically increasing the percentage of salary contributed when an increase in pay is received (65 percent), and automatically investing contributions for the employee (59 percent). Plan participants and nonparticipants are equally likely to favor each of these automatic features.

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Overview

The 16th wave of the Retirement Confidence Survey (RCS) suggests that many American workers are not ready to undertake the task of financial planning for their retirement and face the prospect of having to work far longer than they expect. The RCS finds that Americans have opinions and behaviors that hinder their ability to realistically assess the preparations needed to ensure a financially secure retirement. While a majority of Americans have made some financial preparations, saving is more likely to take place when encouraged by an employer-provided retirement savings plan, such as a 401(k), than when left solely to individual initiative. Moreover, the findings suggest that although education has been moderately successful at boosting retirement preparation, options that default workers into more desirable retirement planning behavior may also have their place.

Findings in this year's RCS include:

- Key indicators of retirement planning have held steady in recent years. The proportion of workers[1] saving for retirement continues at 7 in 10 (70 percent), while the percentage who report having attempted to calculate their savings needs for retirement remains at 42 percent.
- More than half of workers saving for retirement report total savings and investments (not including the value of their primary residence or any defined benefit plans) of less than $50,000 (52 percent). However, the large majority of workers who have not put money aside for retirement have little in savings at all: Three-quarters of these workers say their assets total less than $10,000 (75 percent).
- Many workers are counting on employer-provided benefits in retirement that are increasingly unavailable. Only 40 percent of workers indicate they or their spouse currently have a defined benefit plan, yet 61 percent say they are expecting to receive income from such a plan in retirement. Likewise, workers are as likely to expect (37 percent) as retirees are to receive (40 percent) retiree health insurance through an employer, despite the fact that the number of employers offering this benefit is declining.
- Workers' suppositions about their financial needs for retirement are often based on what appear to be unrealistically low income replacement ratios. While a majority of workers say they prefer a standard of living in retirement that is the same or better than in their working years (59 percent), half think they can maintain a comfortable retirement on 70 percent or less of their preretirement income (50 percent).
- Some workers may have unrealistic expectations about how long they can continue to work. The average retiree today retired at age 62, but the average worker expects to retire at age 65. At the same time, workers are more than twice as likely to expect to work for pay in retirement (67 percent) as retirees are to have actually worked (27 percent).

The RCS continues to find that one-quarter of workers are *very* confident about their financial security in retirement (24 percent), while more than 4 in 10 are *somewhat* confident (44 percent). However, at least some of those who say they are *very* confident may be *overconfident*. Twenty-two percent of *very* confident workers are not currently saving for retirement, 39 percent have less than $50,000 in savings, and 37 percent have not done a retirement needs calculation.

Employer-provided retirement savings plans, such as 401(k)s, perform an important role in encouraging retirement savings. Eligible workers are much more likely to save through a plan offered by their employer (82 percent) than workers are overall to have an individual retirement account (IRA) in which they have contributed (36 percent). In addition, employer-sponsored plans account for a significant proportion of workers' retirement savings. Seven in 10 plan participants say that half or more of their household's *total* retirement savings are in their current employer's plan (70 percent).

To boost participation, employer plans could be further enhanced by adding automatic options. A majority of employed workers favor automatic enrollment (69 percent), automatically increasing the percentage of salary contributed when an increase in pay is received (65 percent), and automatically investing contributions for the employee (59 percent). Plan participants and nonparticipants are equally likely to favor each of these automatic features.

Employer-provided retirement education continues to play an important role. Among the 48 percent of workers receiving retirement planning information from an employer, 29 percent report modifying their retirement planning as a result of the material they receive. In addition, those receiving retirement planning information through an employer tend to report better retirement planning, including an increased likelihood of doing a retirement needs calculation. Half of all workers doing a calculation say they made changes as a result (51 percent).

Preparing—or Not—for Retirement

Saving for Retirement

A majority of Americans appear to be persuaded about the need to set aside money to prepare for retirement. The RCS finds that 7 in 10 workers and/or their spouses have saved money for retirement (70 percent) (Figure 1). While the proportion of workers having saved for retirement increased from 1994–2000, it declined significantly in 2001 and has remained fairly constant since then. In contrast, the proportion of retirees having saved for retirement has tended to increase very gradually, from roughly half in 1994–1997 to more than two-thirds in 2006 (68 percent).

Figure 1
Americans Having Saved Money for Retirement

	Workers		Retirees
	Have Saved Money[a]	Currently Save Money[a]	Have Saved Money[a]
1994	57%	NA	52%
1995	58	NA	48
1996	60	NA	52
1997	66	NA	50
1998	59	NA	59
1999	73	NA	67
2000	78	NA	59
2001	69	61%	61
2002	72	61	62
2003	71	62	64
2004	68	58	65
2005	69	62	66
2006	70	64	68

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1994–2006 Retirement Confidence Surveys.
[a] The addition of the phrase "and/or your spouse" to the question wording for married respondents starting in 1999 is responsible for approximately 4 to 5 percentage points of the increase between 1998 and 1999.

Not all workers who have saved for retirement are *currently* saving for this purpose. Less than two-thirds of workers report that they and/or their spouse are currently saving for retirement (64 percent). This percentage dipped slightly to 58 percent in 2004, but has otherwise remained level since the RCS first measured it in 2001.

Not surprisingly, the likelihood of having saved for retirement among both workers and retirees is strongly related to household income. The proportion saying they have saved for retirement also increases as education levels rise or health status improves. In addition, married workers and retirees are more likely than those not married to have set money aside. Other groups of workers more likely to have saved for retirement include those age 35 and older (compared with younger workers), homeowners (compared with nonowners), workers currently participating in a work-place retirement savings plan (compared with those not participating), those who have received retirement planning information from an employer within the past year (compared with those who have not), workers having attempted a retirement savings needs calculation (compared with those who have not), and those who expect to receive defined benefit income from an employer in retirement (compared with those who do not).

The stable proportion of American workers who save for retirement has both personal and national economic implications, since Americans are far more likely to save for retirement than they are to save for any other goal. The RCS finds that one-quarter of workers save for retirement and either have no other specific savings goal (16 percent) or save for nothing else (11 percent) (Figure 2). Two in 10 workers save for their children's or grandchildren's education (19 percent), and 1 in 10 each save for a home purchase or renovation (10 percent) or a vacation (9 percent). Smaller proportions of workers mention saving for an emergency (6 percent), their general well-being (5 percent), a car, truck, or van (4 percent), or name other goals. However, nearly 2 in 10 workers do not name any savings goal at all, saying they do not save toward anything specific (5 percent) or do not save at all (12 percent).

Figure 2
Worker Savings Goals, by Having Saved for Retirement
(multiple responses accepted)

		Have Saved for Retirement	
	Total	Yes	No
Retirement	70%	100%	NA
Children's or grandchildren's education	19	23	9%
A home purchase or renovation	10	10	9
A vacation	9	13	2
Money for an emergency	6	6	5
General well-being	5	5	6
A car, truck or van	4	5	2
A second home or vacation home	2	3	0
Health expenses	2	2	1
Other	7	7	9
Not saving for anything (else) specific	21	22	18
Not saving for anything else/at all	23	15	41

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

Retirees are even less likely than workers to name specific savings goals, although 1 in 10 report saving for their general well-being (9 percent) and 5 percent each say they are saving for an emergency, a vacation, their children's or grandchildren's education, and health expenses. Roughly 3 in 10 retirees each are not saving for anything specific (29 percent) or at all (33 percent).

Many Americans have little money put away in savings and investments (Figure 3). Among RCS workers providing this type of information, more than half report that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000 (53 percent). Approximately 1 in 10 workers each report total savings and investments of $25,000–$49,999 (12 percent), $50,000–$99,999 (12 percent), $100,000–$249,999 (11 percent), and $250,000 or more (12 percent). Retirees are somewhat less likely than workers to say their total household savings are less than $25,000 (42 percent) and more likely to say they have $250,000 or more (21 percent).

These findings are similar to some other estimates of American household assets. Quantifiable data from the 2004 Survey of Consumer Finances (conducted by the U.S. Federal Reserve Board) found that median (midpoint) level of household assets of Americans is $172,900.[2] This includes the value of the primary home, which had a median value of $160,000 for those who owned a home.

Older workers tend to report higher amounts of assets. While nearly three-quarters of workers under age 35 have total savings and investments less than $25,000 (73 percent versus 46 percent of older workers), one-quarter of workers age 55 and older cite assets of $250,000 or more (26 percent versus 10 percent of younger workers). As one might suspect, total savings and investments increase sharply with household income and with education. In addition, homeowners (compared with nonowners) and workers who have done a retirement savings needs calculation (compared with those who have not) tend to have higher levels of savings.

Figure 3

Reported Total Savings and Investments Among Those Providing Response, by Age

(not including value of primary residence or defined benefit plans)

		Worker Age Group				
	All Workers	Ages 25–34	Ages 35–44	Ages 45–54	Ages 55+	All Retirees
Less than $10,000	39%	54%	34%	31%	36%	30%
$10,000–$24,999	14	19	15	13	6	12
$25,000–$49,999	12	11	14	14	8	14
$50,000–$99,999	12	7	16	12	12	11
$100,000–$149,999	5	1	7	5	7	7
$150,000–$249,999	6	3	5	10	5	6
$250,000–$499,999	6	1	5	8	13	12
$500,000 or more	6	4	4	8	13	10

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

Not surprisingly given that retirement is the primary savings goal, the greater part of savings and investments appear to be accumulated specifically for retirement. As a result, many workers may tap into their retirement savings for other needs, such as education, home purchase, or emergencies. Among workers who provided both their total assets and the amount accumulated specifically for retirement, three-quarters report that these amounts are very roughly the same (76 percent). Workers who have not saved for retirement generally have little saved at all; three-quarters say their savings and investments total less than $10,000 (75 percent), and another 12 percent have total assets of $10,000–$24,999.

Retirement Savings Needs

One reason for the modest totals of savings and investments may be that many workers do not know how much they need to save for retirement (Figure 4). Only 42 percent of workers report they and/or their spouse have tried to calculate how much money they will need to have saved by the time they retire so that they can live comfortably in retirement. As with having saved for retirement, the proportion of workers attempting a needs calculation increased from 1994–2000, declined in 2001, and has remained statistically unchanged since that time.

Figure 4

Workers Having Tried to Calculate How Much Money They Need to Save for a Comfortable Retirement[a]

1994	31%
1995	32
1996	29
1997	33
1998	42
1999	48
2000	53
2001	44
2002	38
2003	43
2004	42
2005	42
2006	42

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1994–2006 Retirement Confidence Surveys.

[a] The addition of the phrase "and/or your spouse" to the question wording for married respondents starting in 1999 is responsible for approximately 4 to 5 percentage points of the increase between 1998 and 1999.

The likelihood of doing a retirement savings needs calculation increases with household income, education, and the amount of savings and investments. In addition, married workers are more likely than unmarried workers, and homeowners are more apt than nonowners, to have tried to do one. Workers age 45 and older (compared with younger workers), retirement savers (compared with nonsavers), participants in a defined contribution plan (compared with nonparticipants and those not offered a plan), and those with access to employer-provided retirement planning information or investment advice (compared with those not having access) more often report trying to do a calculation.

Some workers who report doing a calculation use professionals or standardized methods to determine how much they will need (Figure 5). More than one-third say they asked a financial advisor (35 percent) and approximately 1 in 10 each filled out a worksheet or form (10 percent) or used an online calculator (8 percent). However, one-third say they created their own estimate (33 percent), and about 1 in 10 each read or heard how much was needed (9 percent) or guessed (8 percent). By comparison, almost three-quarters of workers who have not done a calculation say they guess at this number (73 percent).

Figure 5

Method of Determining Savings Needed for Retirement, by Doing a Retirement Needs Calculation

(multiple responses accepted)

		Did Retirement Needs Calculation	
	Total	Yes	No
Guess	44%	8%	73%
Ask a financial advisor	19	35	5
Do your own estimate	17	33	4
Read or hear how much needed	11	9	13
Fill out a worksheet or form	5	10	<0.5
Use an online calculator	3	8	0
Base on cost of living/desired retirement lifestyle	3	1	4
Other	4	4	4

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

Overall, the amount that workers think they need to accumulate for a comfortable retirement appears to be rather low (Figure 6). Three in 10 workers say they need to save less than $250,000 (30 percent), and another 2 in 10 mention a goal of $250,000–$499,999 (19 percent). Two in 10 think they need $500,000–$999,999 (21 percent), while about 1 in 10 each believes they need to save $1 million–$1.49 million (8 percent) or $1.5 million or more (10 percent).

Figure 6

Amount of Savings Needed for Retirement, by Doing a Retirement Needs Calculation

		Did Retirement Needs Calculation	
	Total	Yes	No
Under $250,000	30%	23%	36%
$250,000–$499,999	19	17	20
$500,000–$999,999	21	23	20
$1 million–$1.49 million	8	11	5
$1.5 million or more	10	16	6
Don’t know/Don’t remember	9	6	11

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

This amount tends to decrease as age increases. Workers age 45 and older are more likely than younger workers to think they need to accumulate less than $100,000 for retirement. On the other hand, those under age 35 are more apt than older workers to believe they will need $1 million or more. Among those with household income of $50,000 or more, workers who do a calculation are more likely than those who do not to estimate that they need higher amounts.

Retirement Age

The age at which the average worker plans to retire has slowly crept upwards, from age 62 in 1996 to 65 in 2006. One-third of workers plan to retire prior to reaching age 65; 13 percent say they will retire before age 60 and 20 percent plan to retire between the ages of 60 and 64. More than one-quarter of workers say they will retire at age 65 (27 percent), while one-quarter intend to retire at age 66 or even later (25 percent). Although the retirement age of the average retiree has increased slightly, from 60 in 1996 to 62 in 2006, a gap remains between worker expectations and the experience of current retirees (Figure 7).

Figure 7
Planned and Actual Retirement Age

	Workers (planned)	Retirees (actual)
Before 55	6%	13%
55–59	7	16
60–61	10	11
62–64	10	23
65	27	14
66 and older	25	10
Never retire/never worked	7	7

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

While the average age at retirement is likely to continue to increase and many workers may work until their planned retirement age, others could find themselves retiring sooner. The RCS has consistently found that approximately 4 in 10 retirees leave the work force earlier than planned (38 percent in 2006). Many retirees who retired early cite negative reasons for leaving the work force before they expected, including health problems or disability (40 percent) or changes at their company, such as downsizing or closure (30 percent). Some retirees mention a mix of positive and negative reasons for retiring early, but just 12 percent offer *only* positive reasons. The consequences of an unplanned early retirement can be heavy. Retirees who retire earlier than planned are more likely than those who retire on time or later than planned to say they are *not* confident about having a comfortable retirement or about having enough money for basic expenses in retirement.

Like retirees, some workers are likely to find themselves vulnerable to an unplanned early retirement for health, family, and other reasons. There is some indication that workers may not be taking these factors into account when they determine their planned retirement age. For example, one might expect that workers describing their health as fair or poor would be planning on retiring at a younger age than those in better health. However, the planned retirement age distribution is roughly similar, regardless of health status.

Length of Retirement

Although individual workers may be significantly underestimating how long they will spend in retirement, it appears that workers, on average, have reasonable expectations about the length of their retirement. The average RCS worker expects to retire at age 65 and spend 20 years in retirement. One-quarter expect to be retired for 20–24 years (26 percent), 8 percent think they will be retired for 25–29 years, and 15 percent think they will live in retirement for 30 years or more. At the same time, 6 percent think they will live less than 10 years in retirement, 25 percent think they will live 10–19 years, and 19 percent say they are unable to estimate how long they will live.

Workers planning to retire at earlier ages tend to expect they will spend longer in retirement than those who plan to retire at older ages. However, men and women provide similar estimates of the length of time they will spend in retirement as well as similar expected ages at retirement, despite the fact that women, on average, live longer than men (Figure 8). Half of both men and women providing this information expect to live until at least age 85, and one-quarter expect to live until at least age 90. According to the 2005 OASDI Trustees Report, a 65-year-old man today can expect to live until age 82, while a 65-year-old woman can expect to live until age 85.[3]

Figure 8

Calculated Life Expectancy[a] for Workers, by Gender

	Males	Females
75% expect to live until age:	77	80
50% expect to live until age:	85	85
25% expect to live until age:	90	90
10% expect to live until age:	96	95

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

[a] Life expectancy is calculated by adding expected age at retirement and expected length of retirement for workers providing both pieces of information.

Workers appear to have less of a grasp on the variability of life expectancy (Figure 9). Many may be planning for a retirement that lasts for as long as they think they will live and failing to consider that they could easily live beyond that age. One in 10 workers think they have almost no chance of living until age 85 (10 percent) and 15 percent believe they have only a 25 percent chance of reaching that age. Only 15 percent say they have almost a 100 percent chance of living that long. Similarly, 6 in 10 workers think they have almost no chance (32 percent) or about a 25 percent chance (27 percent) of reaching age 90, while only 2 in 10 think they have about a 75 percent chance (13 percent) or a 100 percent chance (6 percent).

Older Americans tend to offer lower estimates of their chances of living until each of the target ages than those who are younger, despite the fact that they have already reached an older age. This is particularly evident when comparing the responses of workers (who have a median age of 43) and retirees (median age of 72). On the other hand, those in *excellent* or *very good* health tend to offer higher estimates than those in *fair* or *poor* health. Although women are more likely than men to live until each of these ages, workers respond similarly regardless of gender.

Figure 9

Worker and Retiree Estimated Chances of Living Until Specific Ages

	Almost 100% Chance	About a 75% Chance	About a 50% Chance	About a 25% Chance	Almost No Chance	Don't Know/ Refused
Age 85						
Workers	15%	26%	32%	15%	10%	2%
Retirees	14	17	32	26	6	5
Age 90						
Workers	6	13	20	27	32	2
Retirees	8	8	21	22	34	8
Age 95						
Workers	3	5	13	20	57	2
Retirees	3	3	8	13	63	9
Age 100						
Workers	3	2	6	13	75	2
Retirees	1	2	5	5	79	8

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

Income Needs in Retirement

Even knowing that they must save more now to afford it, 6 in 10 workers say they would realistically prefer a retirement standard of living that is the same (47 percent) or higher (12 percent) than that of their working years (Figure 10). About 4 in 10 indicate they would give up some comfort in retirement in exchange for lower levels of saving in their working years (39 percent).

Figure 10

Worker Preferences for Standard of Living in Retirement

Given tradeoff between saving in working years and standard of living in retirement, worker would prefer a retirement standard of living that is:	
Higher than in working years	12%
The same as in working years	47
The same as in working years for the first 10 years of retirement, and then lower	17
Lower than in working years	21

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

Nevertheless, many workers seem to have unrealistically low expectations about how much income they might need to maintain a comfortable lifestyle in retirement. Half of workers say they will need up to 70 percent of their preretirement income to live comfortably in retirement: 14 percent think they will need less than 50 percent, and 36 percent believe they will need 50–70 percent. Almost 3 in 10 think they can afford a comfortable retirement with 70–85 percent of their preretirement income (28 percent), while 7 percent expect to need 85–95 percent. Just 12 percent think their income in retirement will need to be about the same or higher than right before retirement.

Many financial planners suggest that workers plan for a retirement income replacement ratio of at least 70 percent of their preretirement income. Indeed, if workers equate comfort with current retirees' standard of living, they may find they have underestimated (Figure 11). Many retirees report they have higher income replacement ratios: One-third of retirees (34 percent) say their current income is about the same as their preretirement income (meaning about a 100 percent replacement of their preretirement income), 2 in 10 say their current income is higher (21 percent), and more than 4 in 10 state it is lower (44 percent). (Retirees were not asked to account for inflation.)

Figure 11

Percentage of Preretirement Income Needed in Retirement

	Workers (needed in retirement)	Retirees (current income)
Lower (don't know percentage)	NA	6%
Less than 50%	14%	17
50%–70%	36	13
70%–85%	28	6
85%–95%	7	1
95%–105% (about the same)	6	34
105% or more (higher)	6	21
Don't know/Refused	3	2

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

The percentage of preretirement income that workers think they will need is related to household income. Those with less than $35,000 in household income are more likely than higher-income workers to think their income in retirement will need to equal or exceed their preretirement income for them to live comfortably in retirement. On the other hand, those with higher income are more apt to think they will need 85 percent or less of their preretirement income to live comfortably. The income replacement ratio mentioned by workers appears to have little relationship to the amount they think they need to accumulate for retirement, even when household income and expectations of income from a defined benefit plan are taken into account.

Although there is a weak relationship among workers between the amount of replacement income they think they will need and health status, many workers may be failing to take health care costs sufficiently into account when estimating their needs. Consistent with RCS findings from previous years, workers are as likely to expect to have access to employer-provided health insurance coverage in retirement (37 percent) as current retirees are to receive it (40 percent) (Figure 12), despite the fact that many employers are modifying or eliminating access to such coverage for future retirees. In addition, workers provide similar estimates of how much income they will need, regardless of whether they expect to have such coverage.

Figure 12
Availability of Employer-Provided Health Insurance Coverage in Retirement

	Workers (Expected)	Retirees (Reported)
Yes (net)	37%	40%
Employer paid	16	13
Retiree paid	9	11
Costs shared by employer and retiree	10	14
Uncertain who pays	2	2
No	58	59
Don't know	5	<0.5

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

Workers offered an employer-provided retirement savings plan are more apt than those without this type of plan to expect retiree health coverage. Others who more often say they will receive this type of coverage include workers expecting to receive retirement income from a defined benefit plan (compared with those who are not), those employed in the public sector (compared with private-sector workers), and those with income of at least $35,000 (compared with lower-income workers).

Even with their relatively high levels of income replacement and benefit coverage, many retirees are facing financial pressures. Half of retirees report they are on a fixed budget (52 percent) and almost 4 in 10 indicate that inflation has affected their retirement lifestyle more than they had expected (37 percent). More than 4 in 10 are now *more* concerned about their financial future than they were right after they retired (42 percent) (Figure 13). These retirees most often mention that this is due to higher-than-expected general expenses or inflation (48 percent). Fewer cite unexpected or rising medical expenses (13 percent), not saving enough money (8 percent), overestimating Social Security or pension benefits (6 percent), misjudging how long their savings would last (5 percent), or investments not doing as well as expected (3 percent).

Figure 13
Retirees' Concern About Their Financial Future, Compared With Right After They Retired

Much more concerned	17%
Somewhat more concerned	25
About the same	11
Somewhat less concerned	29
Much less concerned	16

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

Retirees with household income under $35,000 are more likely than those with higher income to report facing these pressures. In addition, retirees without income from a defined benefit plan are more likely than those with such income to say they are now *much more* concerned about their financial future.

Sources of Retirement Income

Many workers may be basing their expectations about where their retirement income will come from on shaky assumptions. While more than 6 in 10 retirees cite guaranteed sources, such as Social Security (43 percent) and an employer-provided pension (20 percent), as their largest source of income in retirement, almost half of workers are planning to rely on their own savings for their largest source (Figure 14). Fourteen percent each say they expect that money from a work-place retirement savings plan, such as a 401(k), or an IRA will provide their largest share. Two in 10 say it will come from other personal savings or investments (20 percent). In contrast to retirees, approximately one-third of workers expect their largest share of income will come from Social Security (20 percent) or an employer-provided pension (14 percent). Far fewer say the largest share of their retirement income will come from employment (6 percent), the sale or refinancing of their home (3 percent), an inheritance (3 percent), or some other source.

Figure 14

Largest Expected and Actual Sources of Income in Retirement

	Workers (Expected)	Retirees (Reported)
Personal savings (net)	48%	22%
A work-place retirement savings plan, such as a 401(k)	14	4
Money from an IRA	14	7
Other personal savings or investments	20	11
Social Security	20	43
A traditional employer-provided pension	14	20
Employment	6	2
The sale or refinancing of your home	3	1
An inheritance	3	1
Support from your children or other family members	2	1
A lump-sum distribution from a cash balance plan or traditional pension	1	3
Don't know/Refused	3	6

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.

Workers with higher household income or higher levels of assets are more likely than lower-income workers to cite savings as their largest share of retirement income, but many of these workers may not be saving at rates necessary to provide the needed income. (Surprisingly, even 2 in 10 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.) Workers employed in the private sector are also more apt than those in the public sector to be counting on savings. At the same time, public-sector workers are depending on pension income more often than those in the private sector. In addition, lower-income workers are more likely than those with higher household income to say that their largest share will come from Social Security or employment.

While some workers may be underestimating how much income their accumulated savings will generate, others may be expecting to rely on employer-provided benefits that they may not receive. Workers are as likely to expect that they will receive retirement income from a defined benefit (or "traditional") pension plan (61 percent) as retirees are to receive it (62 percent). At the same time, only 4 in 10 workers report they and/or their spouse currently have this type of plan (40 percent). 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.

In addition to problems with workers' assumptions about retirement income from savings and defined benefit plans, the large majority of workers do not know the age at which they can receive full Social Security retirement benefits without a reduction for early retirement. Notwithstanding the past seven years of individual benefit statements being mailed to the U.S. population from the Social Security Administration, almost half of workers believe they will be eligible for unreduced benefits sooner than they actually will (48 percent). One-third incorrectly think they will be eligible for unreduced benefits at age 65 (31 percent of all workers), and 2 in 10 think they will be eligible even before age 65 (17 percent). More than 2 in 10 workers say they do not know when they will be eligible to receive full benefits from Social Security (22 percent). (In reality, the Social Security normal retirement age varies from age 65 to age 67, by year of birth.)

Only 19 percent of workers are able to give the correct age at which they will be eligible for full retirement benefits, and 9 percent believe they will be eligible later than they actually will be. The consistent finding is that knowledge increases sharply among workers age 55 and older, who are more than twice as likely as younger workers to respond correctly.

A majority of workers expect to work for pay in retirement to supplement their income. In 2006, two-thirds of workers say they expect to work for pay after they retire (67 percent). While the 2006 RCS did not ask about reasons for working in retirement, the 2004 RCS documented that all but 3 in 10 workers expecting to work for pay in retirement identified at least one financial motive for doing so. However, only 27 percent of the 2006 retirees report having actually worked for pay at some time during their retirement. Those who worked most often say they wanted to stay active and involved (96 percent) or enjoyed working (79 percent), but more than 7 in 10 also identify at least one financial reason for having worked (72 percent).

Workers who plan to work in retirement are subject to the same stresses that can lead to an unplanned early retirement. It is noteworthy that while expectations among workers of obtaining paid employment in retirement do not appear to vary significantly by age, just 32 percent of retirees who left the work force within the past 10 years report having worked for pay after they retired. Although work for pay during retirement may increase, it is unlikely that all who would like to work will be able to do so. For some, this may result in reduced resources during retirement, and these workers' retirement security is likely to be in jeopardy.

Risks in Preparing for and Managing Retirement

Some workers may be underestimating the likelihood of risks that can hinder their ability to prepare for retirement (Figure 15). Workers were asked to assess the likelihood that each of six possible risks would occur. Seven in 10 say that inflation going up by 7 percent or more a year is *very* (31 percent) or *somewhat* (42 percent) likely to occur. Roughly half believe that they or their spouse are likely to have to provide a relative with financial assistance (22 percent *very* likely, 32 percent *somewhat* likely), will be unable to work for six months or more (16 percent, 30 percent), or will encounter medical expenses not covered by insurance (18 percent, 27 percent). Somewhat fewer feel that they or their spouse will have to retire two or more years early (11 percent, 30 percent). Of the six risks, workers are least likely to think they are at risk for losing their home and/or most of their possessions due to an unexpected event (6 percent, 23 percent). Perhaps because they have fewer resources to fall back on and therefore may be more concerned about the consequences, workers with assets under $25,000 are more apt than those with higher assets to say each of these events is likely to occur. Lower-income workers and those in *fair* or *poor* health are also more likely than their counterparts to assess most of these events as likely.

Figure 15

Worker Assessment of Selected Risks

	Very Likely	Somewhat Likely	Not Too Likely	Not at All Likely	Don't Know
Inflation goes up by 7% or more a year	31%	42%	18%	6%	3%
You have to provide a relative with financial assistance	22	32	25	20	1
You or someone in your family has large medical expenses that are not covered by insurance	18	27	31	23	1
You (or your spouse) are unable to work for six months or more	16	30	34	18	1
You (or your spouse) have to retire two or more years earlier than expected	11	30	33	25	1
You lose your home and/or most of your possessions due to an unexpected event	6	23	42	28	1

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2006 Retirement Confidence Survey.