



EBRI News

2121 K St. NW • Suite 600 • Washington, DC 20037-1896
(202) 659-0670 • www.ebri.org • Fax: (202) 775-6312

Contacts: John MacDonald, EBRI, (202) 775-6349, macdonald@ebri.org
Jack VanDerhei, EBRI, (202) 775-6327, vanderhei@ebri.org

Embargoed for Release: 12:01 a.m. ET, April 4, 2006

2006 Retirement Confidence Survey:

Many Americans' Retirement Hopes Are Filled With Holes *Adverse News Apparently Had No Impact on Workers' Confidence*

WASHINGTON—A large majority of Americans expect to enjoy a comfortable retirement, but many have not taken the actions needed to turn their aspirations into reality and face the prospect of having to work far longer than they expect, according to the 16th annual Retirement Confidence Survey.

The survey, released today, showed many Americans' retirement expectations are like a piece of Swiss cheese—full of holes. For example, many have accumulated only modest retirement savings, underestimate the share of their preretirement income they are likely to need in retirement, and have made no estimate of how much they will need to live comfortably once they retire.

Still, 24 percent of survey respondents said they are *very confident* they will have enough money to live comfortably in retirement and another 44 percent said they are *somewhat confident*. The total of more than two-thirds (68 percent) of current workers expressing some level of confidence in their retirement prospects was statistically unchanged from a year ago, but came in the face of a recent series of widely publicized announcements of companies ending or limiting their traditional pension programs and retiree health promises, a development that could have affected retirement confidence.

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.

“Recent research has found that when a ‘traditional’ pension is frozen, many workers in the pension are unlikely to get an equal benefit value contributed to their 401(k) plan,” said Jack VanDerhei, a Temple University professor, EBRI fellow, and co-author of the Retirement Confidence Survey. “Each case is different, but it’s clear that people currently working should factor into their retirement planning the long-term trend away from ‘traditional’ defined benefit pensions and toward 401(k)-type plans.”

He added: “We find there are a lot of people who need to be saving more than they are, if they hope to be able to afford a comfortable retirement.”

The Retirement Confidence Survey (RCS), begun in 1991, is the country's most established and comprehensive study of the attitudes and behavior of American workers and retirees toward all aspects of saving, retirement planning, and long-term financial security. Survey results appear in the April 2006 *EBRI Issue Brief*, available at www.ebri.org. The survey is sponsored by EBRI and Mathew Greenwald & Associates, a survey research firm, and is underwritten by more than two dozen other organizations.

Here are some of the survey results that suggest holes in Americans' retirement hopes:

- **Saving:** More than two-thirds (68 percent) of current workers say they and their spouses have accumulated less than \$50,000 in retirement savings. Not surprisingly, this modest level of saving is more prevalent among younger workers: 88 percent of workers ages 25–35 have less than \$50,000 saved for retirement, compared with 52 percent of workers ages 55 and older.

- **Health care costs:** Nearly 6 in 10 (58 percent) of current workers say they and their spouses do not expect to receive any health insurance from their employers when they retire. Recent EBRI research showed that individuals age 55 who live to age 90 would need to have accumulated \$210,000 (by age 65) to pay for insurance to supplement Medicare and out-of-pocket medical expenses in retirement—far more than all but about 10 percent of workers currently have saved for all retirement expenses. Not surprisingly, older workers are more likely to have the retirement assets to pay those costs: 25 percent of workers age 55 and older say they have accumulated more than \$250,000 in retirement savings, compared with 12 percent for those 45–54 and 4 percent of workers ages 25–34.
- **Longevity:** Two-thirds (66 percent) of current workers think they have some chance that they will live until age 90—or spend 25 years in retirement, assuming they retire at age 65. Furthermore, 41 percent of current workers think that they have some chance of living until at least age 95—or 30 years of retirement, assuming retirement at age 65. However, 58 percent of current workers think they will have less than 25 years of retirement and another 19 percent are unable to estimate how long their retirement will last. These findings suggest many workers may not be planning and saving enough to finance the full amount of time they expect to spend in retirement, thereby increasing the odds that they will outlive their retirement savings.
- **Income replacement:** Fourteen percent of *current workers* said they thought they would need less than 50 percent of their preretirement income to live comfortably in retirement and another 36 percent expected to need 50–70 percent. However, 62 percent of *current retirees* say their income is 70 percent or more of their preretirement income.
- **Planning:** Nearly 6 in 10 current workers (59 percent) said they hope to have a retirement standard of living equal to or higher than in their working years. But when current workers were asked if they or their spouse have calculated how much money they will need to retire comfortably, nearly 6 in 10 (58 percent) said no. And of those who did do a retirement calculation, 8 percent said they arrived at an answer by guessing.

“We know that more people will live longer in retirement, but also that more retirees will have longer periods of time when they can travel, spend, and enjoy due to lower levels of chronic disability among the elderly,” said Mathew Greenwald, president of the firm that conducted the survey. “What a shame it would be if the health constraints that many older people faced were replaced by financial constraints due to lack of proper planning.”

The survey provides a wide range of responses to other questions, including: How much have Americans accumulated for retirement, and how much do they think they will need to accumulate? What share of employers match workers’ 401(k) contributions? How much of workers’ retirement savings are in 401(k) plans? What are workers’ expectations about whether they will receive Social Security and Medicare benefits of at least equal value to benefits received by retirees today?

In addition, the 2006 RCS found strong support for automatic enrollment in a 401(k) plan for new workers so as to boost participation in a retirement plan: About two-thirds of employed workers favor automatic enrollment (69 percent), with a slightly smaller amount (65 percent) supporting automatically increasing the percentage of salary contributed when a pay raise is received (65 percent). Plan participants and nonparticipants were equally likely to favor each of these automatic features. About half of all workers (48 percent) reported they receive employer-provided retirement education; of those, almost a third (29 percent) report modifying their retirement planning as a result of the material they receive and are more likely to do a retirement needs calculation.

Overall, the survey found American workers’ confidence in their retirement prospects was virtually unchanged this year from 2005: 24 percent of current workers said they were *very confident* this year, statistically unchanged from the 25 percent measured a year ago. In addition, 44 percent of current workers were *somewhat confident* this year, compared with 40 percent in 2005. The number saying they were *very confident* has remained fairly steady over the last decade. The 10-year high was 25 percent for workers; the low over the decade was 19 percent (in 1996). The number of workers saying they are *not at all confident* has varied over the past decade from 9 percent (in 1999) to 17 percent (in 2001 and 2005).

The 16th Retirement Confidence Survey was based on 21-minute telephone interviews with 1,252 individuals age 25 and older in the United States. The interviews were conducted in January. The margin of error for the overall survey is plus or minus 3 percentage points.

###