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2007 Retirement Confidence Survey:

Americans Experience Retirement System Changes, But Are Not Well-Positioned for Post-Work Years

WASHINGTON—A large percentage of American workers recognize the U.S. retirement system is undergoing major changes, but many are not adapting in ways that are likely to leave them well-positioned for a comfortable retirement, according to the 17th annual Retirement Confidence Survey (RCS).

The survey, released today, is sponsored by the nonpartisan Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates, a survey research firm. Highlights include:

- The RCS finds pension-plan changes by employers have left nearly half of workers less confident about the benefits they will receive from a traditional pension plan, but that those experiencing a decline in retirement benefits often fail to react constructively. 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.
- Many workers are counting on employer-provided benefits in retirement that are increasingly unavailable. Forty-one percent of workers indicate they or their spouse currently have a defined benefit pension plan, while 62 percent say they are expecting to receive income from such a plan in retirement.
- Almost 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 $25,000. The majority of workers who have not put money aside for retirement have little in savings at all: 7 in 10 of these workers say their assets total less than $10,000.

"We have known for decades that major changes were taking place in the U.S. retirement system," said Jack VanDerhei, a Temple University professor, EBRI fellow, and co-author of the 2007 Retirement Confidence Survey. "This year, we found that a substantial number of workers realize that the shift from traditional pensions to 401(k) plans affects them personally. Unfortunately, only 24 percent of those affected indicate that they will save more on their own, and only 8 percent indicate that they will save more in the employer's plan as a result of these changes. EBRI research suggests that the vast majority of employees are likely to need some type of additional savings if they hope to end up with the same amount of retirement savings they would have expected prior to the change."

"The cost of health care for future generations of retirees will represent a huge burden, especially given the financial problems facing Medicare," said Mathew Greenwald, president of the firm that co-sponsored the survey. "It seems clear that workers do not understand how much Medicare, Medigap policies, and prescription drugs will cost them in retirement. Most are not accumulating enough money to even cover the insurance and health care costs they are likely to face in retirement."

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The 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. Full survey results appear in the April 2007 *EBRI Issue Brief*, available at www.ebri.org

Here are details of some of the key survey findings:

Confidence:

Americans generally are quite confident they will have enough money to live comfortably throughout their retirement years. This year, 72 percent were either very confident (30 percent) or somewhat confident (42 percent) of having enough money for a comfortable retirement. That is statistically the same as the 70 percent who were either very confident or somewhat confident in 2006.

However, changes in the employer pension system that have taken place in the last five years have left a total of 45 percent of workers either a little less confident (27 percent) or much less confident (18 percent) about the amount of money they will receive from a traditional pension from an employer. Sixteen percent said they were much more or a little more confident about receiving money from an employer-provided traditional pension. The rest were just as confident as five years ago.

The survey showed that nearly 1 in 5 workers or their spouses (17 percent) experienced a cut in the level of retirement benefits from an employer plan in the last two years. Seventy-one percent of workers and their spouses experienced no decrease in the last two years. The finding comes against a background of many employers switching from traditional defined benefit pensions to defined contribution plans (typically 401(k) plans) in recent years.

Investment Advice, Internet Use:

Congress last year allowed companies that manage employer-sponsored retirement plans to offer investment advice to workers – a recognition that 401(k) plan participants have to make a number of decisions, such as whether to participate in the plan, how much to contribute, how to invest the contributions, and what to do with the money if they change jobs or retire.

If this service were available at a modest cost, just over half of workers (54 percent) said they would be very likely or somewhat likely to take advantage of it, while 43 percent said they would not be too likely or not likely at all to take it. However, of those workers who said they would be likely to ask for personalized investment advice, two-thirds (66 percent) said they would implement only the recommendations that were in line with their own ideas. Only 21 percent said they would implement all of the recommendations, as long as they came from a trusted source.

Asked what they expect will be the largest source of retirement income, 28 percent of workers named a 401(k)-type plan, compared with 13 percent of workers who said a traditional pension or cash balance plan. In contrast, 21 percent of retirees said a traditional pension is their largest source of retirement income, compared with 6 percent who said a 401(k)-type plan.

The survey also found that many workers have reservations about using the Internet for financial activities. More than half said they are very or somewhat comfortable with the comparatively anonymous activities of obtaining information about financial products (54 percent) or using calculators (54 percent) online. But fewer said they are comfortable shifting money from one account or investment to another online (43 percent), obtaining advice from financial professionals online (34 percent), or purchasing financial products online (29 percent).

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<u>Retiree Health Gap:</u>
Many current workers may not have a realistic estimate of the amount workers will need to pay for health care, nursing home care, and prescription drugs when they retire, the survey showed. Nearly one-third of workers (32 percent) estimated they and their spouse will need to accumulate less than $100,000 for retiree health costs and more than half (52 percent) put this figure at less than $250,000. One recent EBRI study calculated that, assuming Medicare benefits remain at current levels, couples will need approximately $300,000 to cover health expense in retirement if living to average life expectancy, and as much as $550,000 if living to age 95.

In the 2007 survey, 35 percent of current retirees said they had long-term care insurance. But other studies (not using self-reported results) show that only about 10 percent of Americans age 65 and older actually have that kind of insurance.

Employers have been eliminating retiree health benefits (and access to the benefits) in recent years because of rising costs, but more workers and their spouses said this year they expect to receive retiree health insurance paid for at least in part by an employer—31 percent, compared with 26 percent in 2006. Also, the number who said they do not expect to receive any retiree health insurance from an employer declined this year to 53 percent from 58 percent in 2006.

The 2007 Retirement Confidence Survey is based on telephone interviews using random digit dialing conducted in January with 1,252 Americans ages 25 and older. The margin of error for all respondents is plus or minus 3 percentage points. EBRI is a private, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. www.ebri.org

Underwriters of the survey include 30 organizations (ADP, AIG, Alliance Bernstein, Allstate, American Express, Ameriprise Financial, Inc., Barclays Global Investors, Buck Consultants, CitiStreet, Deere & Company, Diversified Investment Advisors, Financial Engines, Genworth Financial, Hewitt, IBM, ELM Income Group, Investment Company Institute, Lincoln Financial Distributors, Mass Mutual Financial Group, Merrill Lynch, Northrup Grumman, Principal Financial Group, Procter & Gamble, Rockefeller Foundation, Russell Investment Group, Segal Company, Society for Human Resource Management, State Street Corp., Towers Perrin, Vanguard Group) and Charter Partners of the American Savings Education Council (AARP, Fidelity Investments, InCharge Education Foundation, ING Direct Kids Foundation, MetLife, Nationwide Financial Services, Prudential Retirement, State Farm Insurance Companies).

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