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Encouraging Workers to Save: The 2005 Retirement Confidence Survey

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- This *Issue Brief* reports findings of the 15th annual Retirement Confidence Survey® (RCS), which points to potential solutions to the American retirement savings problem, specifically ways that could help workers save more through their employment-based retirement plans.
- ***Importance of Employer Match:*** More than 7 in 10 workers not currently contributing to their employer-sponsored retirement plan say an employer contribution of up to 5 percent of their salary would make them *much more* or *somewhat more* likely to participate (72 percent).
- ***Simplified Options:*** Other retirement plan options that nonparticipants say would make them more likely to contribute are an investment option that automatically becomes more conservative as their retirement date approaches (66 percent) and a feature that automatically raises workers' contributions by a fixed amount or percentage when they receive a pay raise (55 percent).
- ***Automatic Enrollment:*** Two-thirds of nonparticipants indicate they would be *very* or *somewhat* likely to remain in their employer's plan if they were automatically enrolled (66 percent).
- ***Social Security:*** Nearly 7 in 10 of today's workers are skeptical that Social Security will continue to provide benefits of at least equal value to those received by current retirees (68 percent). This proportion has remained relatively constant in recent years, but is below the 1995 level (79 percent). Workers continue to be unable to identify the age at which they will be eligible for full Social Security benefits.
- ***Most Behind Schedule in Saving:*** A majority of workers believe they are *behind* schedule when it comes to planning and saving for retirement (55 percent). Most of those *behind* schedule say that high expenses, particularly everyday expenses (49 percent), child-rearing expenses (39 percent), and medical costs (35 percent), are a *major* factor in keeping them from saving.
- ***Less Than Half Have Tried to Calculate Needed Savings:*** Approximately 4 in 10 workers say they have tried to calculate how much they need to accumulate for retirement. More than one-third of these workers say they asked a financial advisor to calculate this number or used their own estimates; 10 percent say they simply guessed how much they will need in retirement.

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Overview

The 15th wave of the Retirement Confidence Survey® (RCS) points to potential solutions to the American retirement savings problem, specifically ways that could help workers save more through their employment-based retirement plans. The RCS again finds that a strong majority of Americans are skeptical that Social Security will continue to provide benefits at least equal to those received by current retirees (although confidence of the American public in Social Security has actually risen over the past decade), and helps pinpoint a number of reasons why Americans may not be preparing adequately for retirement.

In recent years, considerable effort has been made to educate the American population about savings, retirement planning, and financial education in an attempt to boost preparation for retirement. Despite this, the latest RCS also finds that the proportions of Americans who say they are saving for retirement and taking key retirement planning steps have remained stable. And paradoxically, at the same time that many Americans recognize that they are not doing enough to plan and save for retirement, they also express some level of confidence (in some cases, perhaps unrealistically high confidence) in their future retirement financial security. At base, however, the RCS reinforces a premise of financial education efforts, *Choose to Save®*—or, health permitting, work forever!

New findings in this year's RCS include:

- While most Americans save for retirement through the workplace, steps can be taken to make workplace retirement savings plans even more successful. As other research has documented, workers surveyed in the 2005 RCS say an employer matching contribution is a major incentive to save for retirement. Seven in 10 nonparticipants say they would be *much more* or *somewhat more* likely to participate if the plan had a matching contribution of up to 5 percent of salary (72 percent).
- Half or more think they would be *much more* or *somewhat more* likely to participate if the plan offered a "lifecycle" fund (66 percent); a provision that automatically raises workers' contributions by a fixed amount or percentage when they receive a pay raise (55 percent); a matching contribution of up to 3 percent of salary (51 percent); or a "lifestyle" fund (49 percent). Fewer believe a managed account would persuade them to participate (35 percent). ("Lifecycle" funds are designed for specific age and income groups and automatically become more conservative as retirement nears, while "lifestyle" funds maintain a pre-set level of risk and generally have a mix of conservative, moderate, and aggressive investments; In managed accounts, a professional financial manager makes investment decisions based on responses to a questionnaire.)
- Automatic enrollment in 401(k) plans, as opposed to waiting for the worker to sign up, could also increase plan participation and savings. Nonparticipants appear to accept automatic enrollment—40 percent say they would be *very* likely to stay in the plan if their employer automatically enrolled them in one, and 26 percent would be *somewhat* likely to do so.
- Employers with a retirement plan can help their workers achieve investment diversification through the investment options they offer. Employers looking to help employees make more informed investment allocations may be able to do so more effectively by offering lifestyle or lifecycle funds rather than managed accounts. Among participants not currently offered these types of funds, 23 percent say they would be *very* likely to participate in a lifecycle fund, 21 percent would be *very* likely to participate in a lifestyle fund, and 15 percent would be *very* likely to participate in a managed account.
- Workers[1] are more likely to save through the workplace than on their own. More than 8 in 10 eligible workers say they participate in a workplace retirement savings plan (82 percent); 38 percent of workers have an individual retirement account (IRA). Promoting plans that allow automatic withdrawals from individual bank accounts may not significantly increase non-workplace savings. In this case, ignorance is not the issue: Nearly 7 in 10 of those who do not currently use automatic withdrawals for retirement savings are already aware that they have this option (68 percent).

- More than half of workers (55 percent) describe themselves as being *behind* schedule when it comes to planning and saving for retirement. Twenty-three percent say they are *a little behind* schedule and 32 percent say they are *a lot behind* schedule. Those behind schedule most often (51 percent) cite high expenses as playing a *major* role in keeping them from doing better, specifically everyday expenses (49 percent), child-rearing expenses (39 percent), and medical costs (35 percent).

Other findings from the 2005 RCS include:

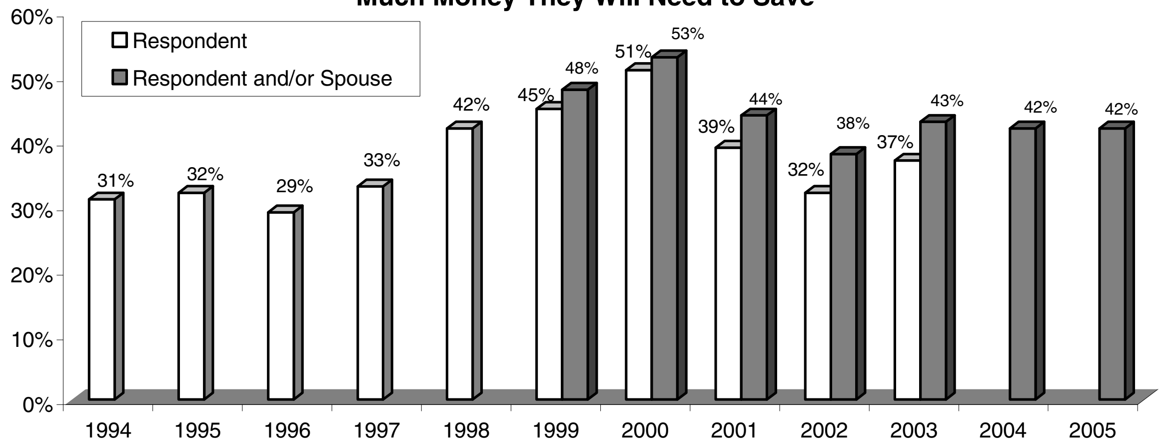
- While 7 in 10 workers report that they and/or their spouse have saved for retirement (69 percent), by their own account most workers have very little money set aside. More than half (52 percent) report that the total value of their savings and investments, excluding the value of their primary home, is less than $25,000.
- The majority of workers continue to be at least *somewhat* confident about their financial security in retirement. One in four are *very* confident (25 percent) and 4 in 10 are *somewhat* confident (40 percent) that they will have enough money to live comfortably throughout their retirement years. Even 37 percent of workers who have not saved at all for retirement say they are at least *somewhat* confident of having enough money for retirement.
- While retirement confidence is related to retirement preparation, there are indications that at least some of those who say they are *very* confident about their financial prospects in retirement are *over*confident. Twenty percent of those who say they are *very* confident are not currently saving for retirement, 52 percent do not have an IRA opened with money saved outside of an employer's retirement plan, and 37 percent have not done a retirement needs calculation.
- Postponing retirement and working for pay in retirement continue to be favorite worker strategies to make up for inadequate retirement preparation. While some workers may find these strategies are successful, others may find themselves forced to retire with fewer resources than they would like. Four in 10 retirees report that they retired earlier than expected, usually due to negative reasons such as poor health or changes at their company. Many current workers are likely to find themselves subject to similar health and workplace stresses when they reach retirement age.
- Workers may also underestimate how much of their preretirement income they will need to replace in order to fund an *adequate* lifestyle in retirement. While half of *retirees* say they use 70 percent or more of their preretirement income to fund a retirement lifestyle that is at least *adequate*, a majority of *workers* expect they will need less than 70 percent of their preretirement income to do the same.
- Only a minority of workers take the time to estimate how much it will take to fund a comfortable retirement. Slightly more than 4 in 10 have attempted to do a retirement needs calculation (42 percent). However, even among those who say they have made the effort, some use methods that may yield less-than-reliable results, such as doing their own estimate (37 percent) or guessing (10 percent).
- A retirement savings calculation appears to be an especially effective way to affect retirement preparation behavior. Among the 42 percent of workers who *have* done a calculation, 44 percent say they have made changes as a result, usually starting to save more money (52 percent). Other evidence that a retirement savings calculation is effective can be gathered from the fact that, compared with those who do not, workers who complete the calculation appear to set more realistic savings goals and are more likely to be *ahead* or *on track* in planning and saving for retirement.
- When asked what would be the single most useful thing in helping them save for retirement, workers themselves most often identify having access to a professional financial advisor (27 percent). In addition, workers say they would be most likely to take advantage of employer-provided professional investment advice if it were offered in-person (25 percent *very* likely, 39 percent *somewhat* likely) rather than online (16 percent *very* likely, 29 percent *somewhat* likely) or by telephone (8 percent *very* likely, 20 percent *somewhat* likely).

What Works?

Retirement Savings Needs Calculation

The majority of American workers have not tried to calculate how much they need to save for retirement, yet doing this calculation can positively impact retirement planning and savings behavior. 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. This percentage is statistically unchanged since 2001.

Figure 1
Workers Having Tried to Calculate How Much Money They Will Need to Save[a]



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1994–2005 Retirement Confidence Surveys.

[a] The addition of the phrase "and/or your spouse" for 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 to have tried to do one. Savers (compared with nonsavers), participants in a defined contribution plan (compared with nonparticipants and those not offered a plan), and those saying they are *ahead* of schedule or *on track* (compared with those *behind* schedule) more often report trying to do a calculation. In addition, among those with household income less than $35,000, workers with access to employer-provided retirement planning information or investment advice are more likely than those without access to say they have attempted a calculation.

Doing a retirement savings needs calculation tends to change savings behavior. Forty-four percent of those who do a calculation report they make changes as a result. Most often, those who do a calculation say they start saving more (52 percent), but other steps they take include changing the allocation of their money (13 percent), starting to save less (11 percent), researching other savings methods (10 percent), reducing debt (5 percent), and opening new accounts (5 percent).

Evidence of the success of doing a retirement savings calculation also comes from other results. Less than 2 in 10 workers think they need to accumulate $500,000–$999,999 to have a comfortable retirement (18 percent), while less than 1 in 10 each believe they need to save $1 million–$1.49 million (8 percent) or $1.5 million or more (7 percent). Yet workers who do a calculation are more likely than those who do not to estimate that they need higher amounts, even when household income is held constant.

Figure 2

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

		Did Retirement Needs Calculation?	
	Total	Yes	No
Under $250,000	32%	23%	38%
$250,000–$499,999	21	21	22
$500,000–$999,999	18	21	16
$1 million–$1.49 million	8	11	6
$1.5 million or more	7	11	5
Don't know/Don't remember	10	8	11
Refused	2	4	<0.5

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

The results of the calculation might be even more reliable if the methods used were improved. While more than one-third of workers doing a calculation go to a financial advisor (35 percent) and 1 in 10 each say they use an online calculator (11 percent) or fill out a worksheet or form (10 percent), 37 percent say they do their own estimate and 10 percent admit they guess.

Figure 3

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

(multiple responses accepted)

		Did Retirement Needs Calculation?	
	Total	Yes	No
Guess	46%	10%	76%
Do your own estimate	21	37	7
Ask a financial advisor	18	35	5
Read or hear that is how much needed	7	6	7
Fill out a worksheet or form	5	10	0
Use an on-line calculator	5	11	<0.5
Cost of living or lifestyle	2	1	4
Spouse calculated	1	1	1
Other	3	2	3

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Most workers are confident they can save the amount they think they need for a comfortable retirement. Almost 3 in 10 are *very* confident (28 percent) and nearly 4 in 10 are *somewhat* confident (38 percent) they can reach their savings goal by the time they retire. Less than 2 in 10 each are *not too* (19 percent) or *not at all* (15 percent) confident. Despite the fact that they tend to think they need to save higher amounts, workers who have calculated a retirement savings goal are almost twice as likely as those who have not to be *very* confident about being able to save that amount. Confidence is also related to household income and total assets, increasing as household income or assets increase.

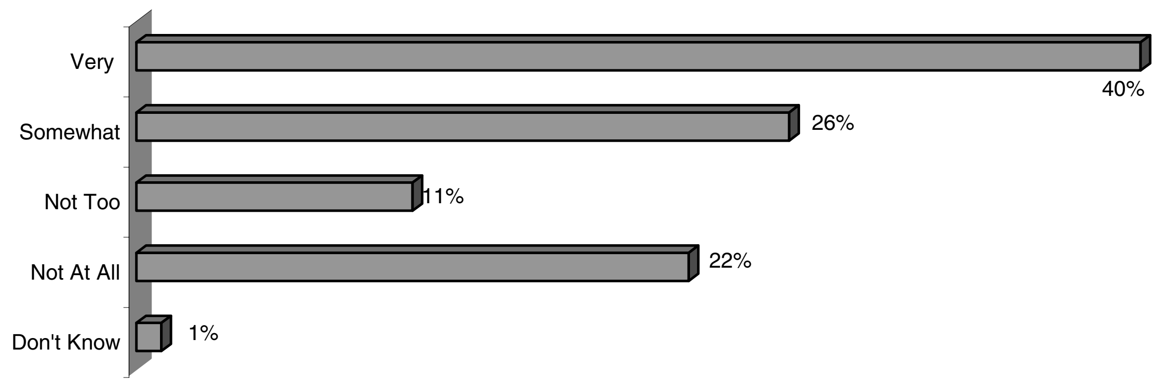
Automatic Enrollment in Employer-Sponsored Plans

The RCS finds that more than 8 in 10 eligible workers say they participate in a retirement savings plan at work (82 percent).[2] In contrast, just 3 in 10 workers say they and/or their spouse have an IRA opened with money saved outside of an employer's retirement plan (31 percent). Since employer-sponsored retirement savings plans are effective at stimulating family savings, enhancing these plans would be likely to enhance personal savings.

Automatically enrolling workers into a workplace retirement savings plan is a way of "defaulting" workers into the savings option, and workers generally accept this strategy. Two-thirds of workers who do not contribute to their employer's retirement plan nonetheless say they would stay in such a plan if their employer automatically enrolled them in one, with 40 percent being *very* likely to stay in the plan and 26 percent being *somewhat* likely to do so. Only 22 percent say they would be *not at all* likely to stay in the plan if they were automatically enrolled. When asked directly how they feel about automatic enrollment in a workplace retirement plan, half of nonparticipants describe their feelings as positive (49 percent), compared with one-quarter who describe their feelings as negative (25 percent); 26 percent say they feel indifferent about automatic enrollment.

Figure 4

Likelihood of Staying in a Workplace Savings Plan if Automatically Enrolled, Among Workers Offered Employer-Sponsored Plan But Not Participating



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Workers are somewhat less receptive to options that automatically increase their contributions. Two in 10 participants say their employer's retirement plan includes an option to automatically increase their contribution whenever they receive a pay raise (20 percent).[3] Among participants who do not have this option available in their retirement savings plan, 27 percent indicate they would be *very* likely to use this option if it were part of their plan and 33 percent would be *somewhat* likely to do so. Similarly, 19 percent of nonparticipants say they would be *much more* likely to participate in a plan with this option, while 37 percent would be *somewhat more* likely.

Other Enhancements to Employer-Sponsored Plans

If employers wish to add funds to their retirement plan to help employees make more informed investment decisions, lifecycle and lifestyle funds may be more popular than managed accounts. Thirty-eight percent of workers who contribute to a workplace retirement plan currently invest in funds that maintain a pre-set level of risk and offer participants a mix of aggressive, moderate, and conservative investments. Among workers who do not have this type of fund available, 2 in 10 would be *very* likely to invest in it if it were offered as part of their retirement plan (21 percent), and nearly half would be *somewhat* likely to do so (46 percent). Two in 10 plan participants say they invest in a lifecycle fund (which becomes more conservative as retirement nears) as part of their workplace retirement plan (19 percent). Among those who do not currently have this option, 23 percent would be *very* likely and 45 percent would be *somewhat* likely to invest in it if it were made available. Finally, 16 percent of workers who contribute to a workplace retirement plan currently use a managed account as part of their plan (where a professional financial manager makes investment decisions based on responses to a questionnaire). If that option were made available to those who do not currently have it, only 15 percent indicate they would be *very* likely to use it and 36 percent would be *somewhat* likely to use it.[4]

Figure 5

Likelihood of Using Savings Plan Feature if Offered, Among Workers Participating in an Employer-Sponsored Retirement Savings Plan

	Current Status			Not Offered Feature			
	Not Offered	Offered, Use	Offered, Don't Use	Very Likely	Somewhat Likely	Not Too Likely	Not At All Likely
An option that automatically raises your contribution by a certain percentage or amount whenever you receive a pay raise	78%	19%	1%	27%	33%	17%	19%
A fund option that is designed for people of your age and income level and automatically becomes more conservative as your retirement date nears	76	19	2	23	45	14	11
A fund option that maintains a pre-set level of risk and generally has a mix of conservative, moderate, and aggressive investments	56	38	4	21	46	11	14
An option where a professional financial manager makes investment decisions for you based on your responses to a questionnaire	78	16	4	15	36	21	22

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Workers not participating in their employer's plan suggest that a large employer match would be the best way to encourage participation in workplace retirement plans. Not surprisingly, these workers most often say that adding an employer match of up to 5 percent of salary would be likely to encourage them to begin participating in their employer's plan. Three in 10 say they would be *much more* likely to contribute if this option were available (31 percent), and 41 percent would be *somewhat more* likely to do so. Likely plan participation would not be as high, however, if a matching option were capped at 3 percent of a worker's salary. Less than 2 in 10 noncontributing workers would be *much more* likely to participate in a workplace retirement plan if their employer added a 3 percent match (16 percent), and one-third would be *somewhat more* likely to do so (35 percent). At the same time, it should be noted that some workers do not participate in their employer's plan despite having these matches available. Thirteen percent of nonparticipants report their employer's plan offers up to a 5 percent match, while 14 percent report up to a 3 percent match.

Twenty-one percent of nonparticipants say they would be *much more* likely to begin contributing to their plan if it added a lifecycle fund option, yet twice as many say they would be *somewhat more* likely to do so (44 percent). Nineteen percent of these workers say they would be *much more* likely to begin contributing to a workplace retirement plan if it were to automatically raise their contribution when they received a pay raise, compared with 37 percent who say they would be *somewhat more* likely to do so if their plan added this feature. Fifteen percent say they would be *much more* likely to begin contributing to their workplace retirement plan if it included a managed account option, and 20 percent say they would be *somewhat more* likely to do so. Finally, while only 13 percent of nonparticipants say they would be *much more* likely to begin contributing to a workplace retirement plan if it added a lifestyle fund, 36 percent say they would be *somewhat more* likely to do so.

Figure 6

Change in Likelihood of Participating in Savings Plan if Feature Were Offered, Among Workers Offered Employer-Sponsored Plan But Not Participating

	Much More Likely	Somewhat More Likely	No More Likely	Already Offered
A matching contribution of up to 5% of your salary	31%	41%	14%	13%
A fund option that is designed for people of your age and income level and automatically becomes more conservative as your retirement date nears	21	44	29	5
An option that automatically raises your contribution by a certain percentage or amount whenever you receive a pay raise	19	37	37	7
A matching contribution of up to 3% of your salary	16	35	35	14
An option where a professional financial manager makes investment decisions for you based on your responses to a questionnaire	15	20	49	14
A fund option that maintains a pre-set level of risk and generally has a mix of conservative, moderate, and aggressive investments	13	36	32	19

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

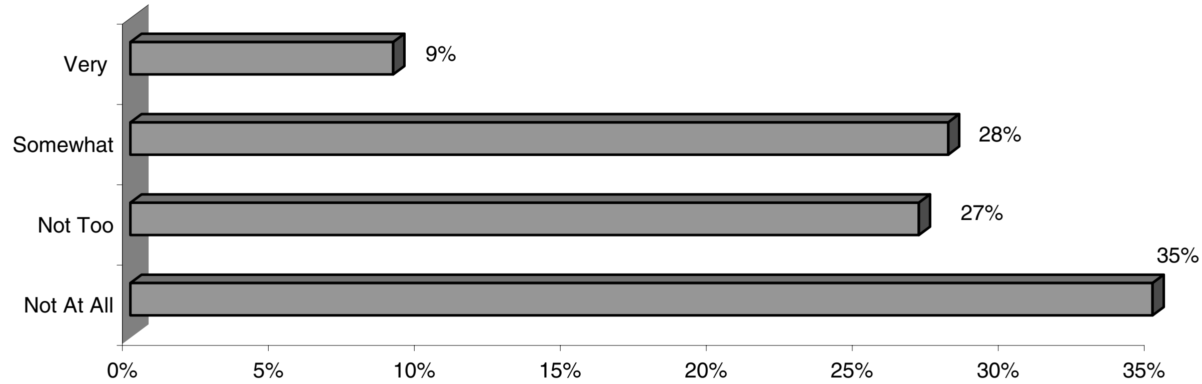
Among participants with matching contributions, 14 percent say they contribute less than their employer will match and 28 percent contribute the maximum their employer will match, but no more. One-third indicate they contribute more than their employer will match, but less than the plan maximum (32 percent), and one-quarter think they contribute the maximum the plan allows (24 percent).

Saving Outside of Work

A minority of workers—less than 4 in 10—report having an IRA (38 percent). Three in 10 say they have an IRA opened with money saved outside of an employer's retirement plan (31 percent), while 2 in 10 have an IRA opened with money rolled over from an employer's retirement plan (19 percent) (12 percent report having both).

Private automatic savings arrangements that mimic the automatic deduction and investment features of a workplace retirement savings plan are available, but few workers take advantage of them. Only 15 percent of workers save for retirement at least in part through automatic withdrawals from their bank accounts, but a sizeable majority of those who do not use automatic deductions are nonetheless aware that they have this option (68 percent). Given this level of awareness, it is not surprising that only about one-third of workers who do not use automatic withdrawals for retirement savings describe themselves as *very* (9 percent) or *somewhat* (28 percent) likely to save this way in the future. The majority say they are *not too* (27 percent) or *not at all* (35 percent) likely to save for retirement in this way. Receptivity to this type of saving arrangement is highest among workers under age 35 and lowest among those age 55 and older.

Figure 7
Likelihood of Saving for Retirement Through Automatic Bank Withdrawals, Among Workers Not Currently Using Method



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Information Sources for Retirement Planning

When making retirement savings and investment decisions, workers who have saved for retirement are most likely to rely on the input of others and written materials. Depending on the specific source, this means that many may be using dubious or unprofessional information in developing their plan for retirement. Almost 9 in 10 married workers who have saved for retirement say they use input from their spouse when making retirement savings and investment decisions (87 percent), 63 percent of workers use the advice of a financial professional, and 57 percent use the advice of family or friends. Just over half of savers use written materials received at work (55 percent) or newspapers, magazines, or other written material (54 percent) to help them make financial decisions about retirement. Fewer report having used information from the Internet (36 percent), television or radio (27 percent), seminars (19 percent), or computer software (18 percent) to help with these decisions.

Perhaps not surprisingly, among the sources of retirement information identified in the RCS, savers most often say they find advice from a financial professional to be most helpful (38 percent). Far fewer find advice from family or friends most helpful (17 percent), followed by input from a spouse (11 percent), information from newspapers or magazines (11 percent), written materials from work (9 percent), and the Internet (7 percent). No more than 2 percent of workers who have saved for retirement find any of the other tested sources of information to be most helpful in their retirement savings and investment decisions.

Figure 8
Retirement Educational Materials Used and Found Most Helpful, Among Workers Saving for Retirement

	Used	Most Helpful
Input from spouse	87%	11%
Advice from a financial professional	63	38
Advice from family, friends, co-workers	57	17
Written materials received from work	55	9
Newspapers, magazines, other written material	54	11
Information from the Internet	36	7
Information from television or radio	27	2
Information from seminars	19	1
Computer software	18	<0.5
Online professional investment advice	11	<0.5
None of these	N/A	1

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

The likelihood of finding a financial professional most helpful is higher among workers with household income of at least $35,000 (compared with lower-income workers) and those who have some college education or more (compared with those having less). On the other hand, workers with less than $35,000 in household income (compared with higher-income workers), those with less than $25,000 in assets (compared with higher-asset workers), and workers under age 35 (compared with older workers) are more likely to report finding advice from family and friends most helpful in making their retirement savings and investment decisions.

Not only do savers who use professional advisors find them most helpful in making their retirement savings and investment decisions, but workers overall tend to believe that professional financial advisors would be the most useful in helping them save for retirement (27 percent). Considerably fewer indicate that a budget to control spending (15 percent), a book about planning and saving (11 percent), or a professional calculation of how much they will need to save (10 percent) would be most helpful in helping them save for retirement.

Figure 9

Most Useful Tools in Helping Save for Retirement

	Workers
Professional financial advisor	27%
A budget to help you manage your current spending	15
A book about planning and saving for retirement	11
A professional calculation of how much money you will need to save for retirement	10
An Internet site on planning and saving for retirement	8
A class on planning and saving for retirement	8
More income/winning lottery	4
Family advice/myself/hard work	2
All options/common sense/anything	1
Something else	2
Nothing	2

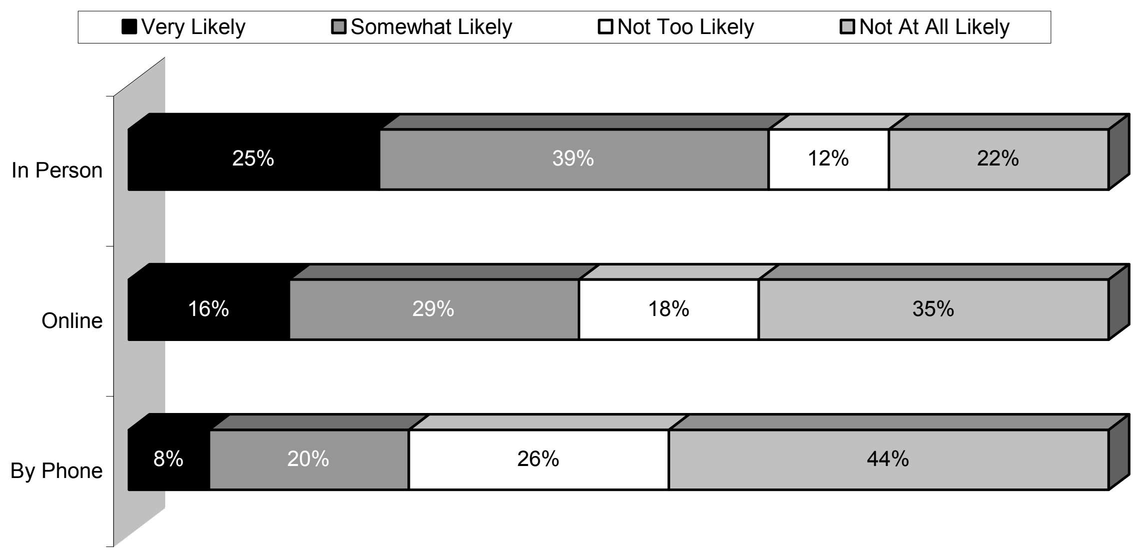
Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

While workers may find a professional financial advisor most helpful, retirement planning materials provided by an employer or retirement plan provider can also be effective in persuading some workers to change their behavior. More than 4 in 10 workers say they have received retirement educational materials or seminars from an employer or work-related retirement plan provider in the past 12 months (42 percent). Among these workers, 20 percent report modifying their retirement planning as a result of the material they received, most frequently by saving more (42 percent) or changing the allocation of their money (31 percent).

Many workers who are offered investment advice implement only some of the advice, preferring to make their own investment decisions. Nearly one-quarter of workers report their employer provided them access to professional investment advice for retirement purposes in the last 12 months (23 percent). Of these, 71 percent say this advice was offered in person, 24 percent indicate this advice was offered online, and 15 percent say it was offered over the telephone. Similar to previous years, of the 46 percent who say they subsequently requested and received specific recommendations on how they should invest their money, only 16 percent implemented all of the recommendations, 59 percent implemented some of the recommendations, and 24 percent did not implement any of the recommendations. Workers with household income of at least $35,000 are more likely than lower-income workers to say that their employer offers them access to this type of investment advice.

Workers who do not currently have access to professional investment advice through their employer would be most likely to take advantage of such advice if it were made available in-person rather than online or over the telephone. More specifically, 1 in 4 say they would be *very* likely to use in-person investment advice if it were offered by their employer (25 percent), and 4 in 10 would be *somewhat* likely to do so (39 percent). Fewer workers are likely to take advantage of investment advice if it is provided online (16 percent *very* likely, 29 percent *somewhat* likely) or by telephone (8 percent *very* likely, 20 percent *somewhat* likely).[5]

Figure 10
Likelihood of Using Employer-Provided Retirement Investment Advice, Among Workers Without Access



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Worker Retirement Saving Progress

Saving for Retirement

Despite economic ups and downs, and ongoing government and private-sector efforts at educating the American public about the importance of saving for retirement, the RCS shows that the proportion of workers saving for retirement increased from 1994–2000, but declined significantly in 2001 and has remained fairly constant since then. Seven in 10 workers report that they and/or their spouse have saved money for retirement (69 percent), and approximately 6 in 10 workers say they are *currently* saving for retirement (62 percent).

Figure 11
Workers Reporting Have Saved or Currently Save Money for Retirement

	Have Saved Money[a]	Currently Save Money
1994	57%	NA
1995	58	NA
1996	60	NA
1997	66	NA
1998	59	NA
1999	73	NA
2000	78	NA
2001	69	61%
2002	72	61
2003	71	62
2004	68	58
2005	69	62

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1994–2005 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 four to five percentage points of the increase between 1998 and 1999.

Education and (not surprisingly) household income tend to be the major factors in whether workers have saved for retirement. Moreover, married workers are more likely than those who are single, and those who have attempted a retirement savings needs calculation are more apt than those who have not, to have saved. Others more likely to have saved for retirement include homeowners (compared with nonowners) and those who have access to employer-provided retirement planning information or investment advice (compared with those who do not have access).

The stagnant 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 *only for retirement* and have no other savings goal (26 percent). Two in 10 save for their children's or grandchildren's education (20 percent), and approximately 1 in 10 each save for a home purchase or renovation (11 percent), an emergency (9 percent), their general well-being (8 percent), or a vacation (8 percent). Smaller proportions of workers mention saving for a car, truck, or van (4 percent), a second home or vacation home (3 percent), debt reduction (2 percent), money for health expenses (2 percent), or children, inheritances, or family (1 percent). However, nearly 2 in 10 workers do not name any savings goal at all (16 percent).

Figure 12
Worker Savings Goals
(multiple responses accepted)

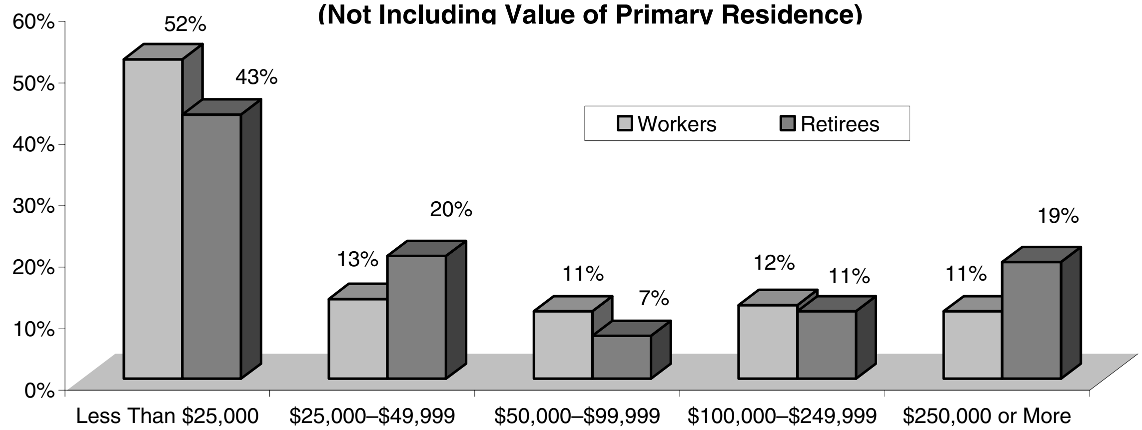
Retirement	69%
Children's or grandchildren's education	20
A home purchase or renovation	11
Money for an emergency	9
General well-being	8
A vacation	8
A car, truck, or van	4
A second home or vacation home	3
Debt reduction	2
Money for health expenses	2
Children, inheritances, or family	1
Other	5
Nothing	16

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Total Savings

Most Americans have little put away in savings and investments. Among RCS workers providing this type of information, more than half report that the total value of their savings and investments, excluding the value of their primary home, is less than $25,000 (52 percent). Approximately 1 in 10 each report total savings and investments of $25,000–$49,999 (13 percent), $50,000–$99,999 (11 percent), $100,000–$249,999 (12 percent), and $250,000 or more (11 percent). This is slightly lower than some other estimates of American household assets, perhaps because workers were asked to quickly recall and total their savings and investments while on the telephone. In particular, some workers may have omitted the vested value of defined benefit plans from their calculation. Quantifiable data from the 2001 Survey of Consumer Finances (conducted by the U.S. Census Bureau) found that median (midpoint) level of household assets of all Americans is $136,010.[6] If the value of the primary home is excluded, the median value of household assets is only $47,000.

Figure 13
Reported Total Savings and Investments (Not Including Value of Primary Residence)



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

In general, older workers are more likely to report higher amounts of assets. However, those age 45–54 and those age 55 and over are statistically equally likely to report each asset category. 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.

Self-Estimation of Progress

Many workers recognize that they are not doing enough to plan and save for retirement. Almost one-quarter describe themselves as *a little behind* schedule (23 percent) and one-third say they are *a lot behind* schedule (32 percent). Fewer than 4 in 10 believe they are *on track* (37 percent), and only 7 percent describe themselves as *ahead* of schedule.

Figure 14

Self-Estimate of Worker Progress in Planning and Saving for Retirement

	This Year	Last Year
A lot ahead of schedule	3%	3%
A little ahead of schedule	4	3
On track	37	36
A little behind schedule	23	23
A lot behind schedule	32	34

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Surveys.

While a few individuals may have pulled ahead or slipped behind in their preparation for retirement since last year, there has been no overall change. Asked how they would have described their retirement planning and saving situation last year, almost one-quarter say they were *a little behind* schedule (23 percent), one-third say they were *a lot behind* schedule (34 percent), and fewer than 4 in 10 describe themselves as having been *on track* (36 percent).

Not surprisingly, workers who have not saved for retirement are almost twice as likely as savers to feel they are *behind* schedule in their retirement planning and saving, and the likelihood of reporting being *behind* schedule decreases sharply as household savings and investments increase. Progress also appears to be related to household income and to having done a retirement savings needs calculation, with higher-income workers and those who have done a calculation less likely than their counterparts to say they are *behind* schedule. At lower asset levels, other factors appear related to the perception of retirement planning and saving progress: Among workers with less than $25,000 in savings and investments, those more likely to describe themselves as *behind schedule* include workers in *good*, *fair*, or *poor* health (compared with those in better health) and those who do not have access to employer-provided retirement planning information or investment advice (compared with those who have access).

Why Behind?

Workers who consider themselves behind schedule in their retirement preparations view expenses as one of the key factors that keeps them from saving the way they should. Half say high expenses play a *major* role in keeping them *behind* schedule (51 percent). Roughly 3 in 10 each report career choice (33 percent), job loss or frequent job changes (31 percent), wanting a comfortable lifestyle (29 percent), and lack of financial discipline (28 percent) are *major* factors that keep them behind. Less than 2 in 10 assign a *major* role to poor investing (17 percent).

Figure 15

Factors Keeping Workers Behind Schedule in Planning and Saving for Retirement, Among Workers Behind Schedule in Planning and Saving for Retirement

	Major Role	Minor Role	No Role
High expenses	51%	31%	17%
Career choice	33	30	37
Job loss or frequent job changes	31	18	50
Wanting a comfortable lifestyle	29	43	27
Lack of financial discipline	28	44	28
Poor investing	17	23	60

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Surveys.

Some behind-schedule workers are especially likely to mention particular factors that played a role in their current financial situation. For example, the likelihood of saying that high expenses play a *major* role in keeping them behind schedule is inversely related to household income and assets. College graduates are more likely than those with less education to feel that their career choice has inhibited their retirement preparations, while unmarried workers are more apt than married workers to cite wanting a comfortable lifestyle. Workers with household income less than $35,000 are more apt than higher-income workers to think job loss or frequent job changes are a *major* factor. Among those with household income of at least $35,000, workers in *good*, *fair*, or *poor* health are more likely than those in better health to assign a *major* role to job loss or frequent job changes. Finally, workers with less than $100,000 in savings and investments are more likely than those with higher amounts to say lack of financial discipline plays a *major* role in keeping them behind schedule. Among those with less than $25,000 in savings and investments, workers under age 45 are more likely than their older counterparts to admit this is a *major* factor.

Expenses

The specific type of expenses most likely to keep people from saving as much as they need are day-to-day expenses. Half of workers who are behind schedule say everyday expenses are a *major* factor that prevent them from in saving for retirement (49 percent). Four in 10 report child rearing expenses are a *major* factor (39 percent), while roughly one-third report medical expenses (35 percent) or car expenses (30 percent) are *major* factors. About one-quarter view the expenses of buying or remodeling a home (27 percent) or education expenses (22 percent) as *major* factors. Workers are less likely to believe that the expenses of information technology (such as cell phones or computers, at 8 percent), the expenses of caring for older relatives (7 percent), or entertainment expenses (6 percent) play a *major* role in keeping them behind schedule.

Figure 16

Expenses Keeping Workers Behind Schedule in Saving for Retirement, Among Workers Behind Schedule in Planning and Saving for Retirement

	Major Factor	Minor Factor	Not a Factor
Everyday expenses	49%	38%	13%
Child-rearing expenses	39	17	44
Medical expenses	35	30	35
Car expenses	30	39	31
Expenses of buying or remodeling a home	27	22	51
Education expenses	22	25	53
Expenses of information technology (computers, cell phones)	8	34	59
Expenses of caring for older relatives	7	15	77
Entertainment expenses	6	36	57

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

As would be expected, the likelihood of naming everyday expenses as a *major* factor in keeping workers behind schedule in saving for retirement is inversely related to household income—meaning that the lower the income, the higher the impact of everyday expenses on nonsaving. In addition, workers who have not graduated from college are more likely than college graduates, and those who do not own their home are more likely than homeowners, to say day-to-day expenses are a *major* reason they are behind. The relationship between other types of expenses and demographic characteristics is also often as expected: Workers with dependent children are more likely than those without dependent children to say that child-rearing expenses are a *major* cause of delayed retirement saving. Among those with dependent children, workers under age 35 are more likely than older workers to find this type of expense a *major* factor. Similarly, the tendency to identify medical expenses as a *major* factor in not saving enough increases as reported health status declines or as household income decreases. In addition, women are more likely than men to think medical expenses play a *major* role in preventing them from saving for retirement.

Not surprisingly, the expenses of buying and remodeling a home are more often cited by homeowners (compared with those who do not own their home) and those with dependent children (compared with those without such children). Among homeowners, women (compared with men) are also more likely to say these expenses are a *major* factor. Finally, workers more likely to cite education expenses as a *major* factor include those with dependent children (compared with those without such children), college graduates (compared with those with less education), and workers under age 45 (compared with workers age 55 and older); those more likely to say car expenses keep them behind include workers with household income less than $75,000 (compared with higher-income workers) and those with dependent children (compared with those without such children).

Although workers assign everyday expenses a *major* role in keeping them behind schedule in saving for retirement, many could trim at least some of these costs if they were more disciplined in their spending habits. Two-thirds of workers report they spend money on a meal in a restaurant or takeout once a week or more often (67 percent). Six in 10 spend money once a week or more often on a soft drink or snack from a vending machine or convenience store (59 percent). Workers are less likely to say they spend money this frequently on a movie, video, or DVD (24 percent), a lottery ticket (12 percent), or coffee from specialty coffee shops (11 percent).

Figure 17

Reported Frequency of Selected Purchases, Among Workers

	Almost Every Day	About 3 Times a Week	About Once a Week	About Once a Month	Less Often
A soft drink or snack from a vending machine or convenience store	21%	13%	24%	14%	27%
A meal in a restaurant or takeout	6	20	41	22	12
Coffee from specialty coffee shops	3	2	6	10	78
A movie, video, or DVD	1	5	19	35	41
A lottery ticket	1	3	9	15	73

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Although workers who think they are *ahead* of schedule or *on track* are somewhat more likely than those who believe they are *behind* schedule to say they spend money once a week or more often on a meal in a restaurant or takeout, or on a movie, video, or DVD, a majority of behind-schedule workers spend money this frequently on meals prepared outside the home. Moreover, workers who are *behind* schedule or not currently saving for retirement are even more likely than those *ahead/on track* or saving to report they spend money weekly on a items from a vending machine or convenience store.

Figure 18

Common Worker Expenditures (Once a Week or More Often), by Retirement Planning and Saving Progress and Current Saving Status

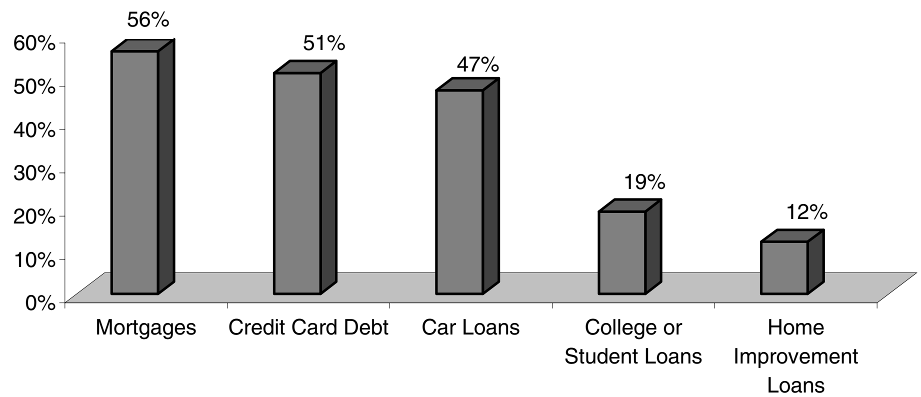
		Retirement Progress		Currently Saving for Retirement	
	Total	Ahead of Schedule/ On Track	Behind Schedule	Yes	No
A meal in a restaurant or takeout	67%	73%	62%	74%	54%
A soft drink or snack from a vending machine or convenience store	59	54	63	55	66
A movie, video, or DVD	24	30	19	29	17
A lottery ticket	12	13	12	11	14
Coffee from specialty coffee shops	11	13	10	12	11

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Debts

Many workers may not recognize the extent to which debt is limiting their ability to save for retirement. Nevertheless, 2 in 10 workers describe their current debt level as a *major* problem (20 percent), and another 4 in 10 say it is a *minor* problem (39 percent). Half of workers report they carry credit card debt (51 percent, perhaps another indication of people's inability to curb their everyday expenses). Workers are less likely to attribute their lack of retirement saving progress to other expenses, yet about half of workers carry mortgage debt (56 percent) or a car loan (47 percent). Two in 10 report having college or student loans (19 percent) and more than 1 in 10 have home improvement loans (12 percent).

Figure 19
Workers Reporting Types of Debt



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Not surprisingly, the likelihood of reporting that debt is a problem is inversely related to household income: The lower the income, the more likely the problem from debt. At the same time, workers who are *behind* schedule are almost twice as likely as workers who are *ahead* or *on track* to say their level of debt is a problem (they are about eight times as likely to say it is a *major* problem). Nonsavers are more likely than savers to say they have a problem with debt, but half of current savers describe their level of debt as a problem. When it comes to specific type of debt, behind-schedule workers, women, and married workers are more likely than their counterparts to indicate they have credit card debt. Also not surprisingly, the tendency to report having a mortgage increases with household income and with education, and married workers are more apt than those who are not married to say they have a mortgage. Workers with household income of at least $35,000 are more likely than lower-income workers, and those with dependent children are more likely than those without such children, to report having a car loan. Finally, and again no surprise, the likelihood of having a college or student loan increases with education, and is inversely related to age: the younger the worker, the more likely they have a school loan.

Retirement Confidence or Overconfidence?

Overall Retirement Confidence

Americans express a fair degree of confidence about their financial prospects in retirement. One-quarter of workers are *very* confident they will have enough money to live comfortably through their retirement years (25 percent), while 4 in 10 describe themselves as *somewhat* confident (40 percent). One-third of workers, however, are less confident that they will have enough money to live comfortably throughout their retirement years, with 17 percent each describing themselves as *not too* or *not at all* confident. While the percentage of workers *not at all* confident about having enough money to live comfortably in retirement is slightly higher in 2005 than in 2004 (13 percent) and 2002 (10 percent), there has been no consistent change in confidence over the past few years.

Figure 20

Worker Confidence in Having Enough Money to Live Comfortably Throughout Their Retirement Years

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Very confident	21%	19%	24%	22%	22%	25%	22%	23%	21%	24%	25%
Somewhat confident	51	41	41	45	47	47	41	47	45	44	40
Not too confident	19	23	19	18	21	18	18	19	17	18	17
Not at all confident	8	16	15	13	9	10	17	10	16	13	17

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1995–2005 Retirement Confidence Surveys.

Perhaps because they are already living in retirement, retirees are considerably more likely than workers to be confident that they will have enough money to live comfortably throughout their retirement years. Four in 10 retirees are *very* confident (40 percent), and another 4 in 10 are *somewhat* confident (40 percent). Retiree confidence has also remained relatively stable over the past few years.

Figure 21

Retiree Confidence in Having Enough Money to Live Comfortably Throughout Their Retirement Years

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Very confident	26%	26%	33%	19%	31%	34%	37%	40%	39%	42%	40%
Somewhat confident	47	42	34	28	39	41	37	32	35	27	40
Not too confident	18	20	18	24	20	14	10	16	12	16	12
Not at all confident	6	8	11	24	8	11	11	11	11	13	7

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1995–2005 Retirement Confidence Surveys.

As would be expected, worker confidence in having enough money for a comfortable retirement increases with household income. Worker confidence also increases with savings and investments and improved health status. Not surprisingly, workers who think they are *ahead* of schedule or *on track* in planning and saving for retirement are more likely than those who think they are *behind* schedule to indicate they are looking forward to a comfortable retirement.

However, almost 4 in 10 workers who have not saved for retirement are nonetheless confident they will have enough money to live comfortably throughout their retirement years (37 percent). When asked to explain this apparent inconsistency, the most common responses are they will have money from an employer or will always work (19 percent each). Fewer workers are relying on other money or property (9 percent) or stocks (8 percent), sound planning or money management (8 percent), or faith that the money will be there (8 percent).

A majority of retirees who have not saved for retirement are also confident in their prospects for a financially comfortable retirement, with 59 percent being at least *somewhat* confident in their ability to afford a comfortable retirement. When asked why they are confident they will have enough for a comfortable retirement despite their lack of savings, retirees are most likely to respond that Social Security is enough for them (31 percent) or that their expenses are low enough that they do not need much money (21 percent). Fewer retirees give other reasons for their confidence, saying they have other money or property (12 percent), money from an employer (9 percent), or faith that the money will be there (9 percent).

Figure 22

Reasons for Retirement Confidence, Among Nonsaving Workers and Retirees Confident of Having Enough Money to Live Comfortably Throughout Retirement

(multiple responses accepted)

	Workers	Retirees
Will have/have money from employer	19%	9%
Job/business/worked hard/always work	19	5
Have other money/property	9	12
Have faith	8	9
Investments/savings/stock	8	3
Been planning/money management	8	0
Expenses will be low/won't need much money	6	21
Social Security will be/is enough	5	31
Will save later	3	0
Don't worry about it	1	3
Will have/have inheritance	0	2
Other	11	13

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Confidence in Other Financial Aspects of Retirement

The 2005 RCS finds that worker confidence is highest in having enough money to pay for basic expenses during retirement, and lowest in being able to afford medical or long-term care expenses. More than one-third of workers are *very* confident they can meet their basic expenses in retirement (35 percent), while another 4 in 10 are *somewhat* confident they will do so (42 percent). Slightly fewer are confident that they are doing a good job preparing financially for their retirement, with one-quarter *very* confident (26 percent) and 46 percent *somewhat* confident. Almost one-quarter are *very* confident (23 percent) and 38 percent are *somewhat* confident that they will not outlive their retirement savings. Fewer workers are confident they will have enough money to meet medical expenses (20 percent *very* confident, 38 percent *somewhat* confident) or long-term care expenses (17 percent *very* confident, 30 percent *somewhat* confident) in retirement.

Figure 23

Worker Confidence in Financial Aspects of Retirement

	Very Confident	Somewhat Confident	Not Too Confident	Not at All Confident
Having enough money to take care of basic expenses				
1995	38%	49%	9%	3%
2000	40	44	9	7
2003	33	45	10	11
2004	36	47	8	8
2005	35	42	11	11
Doing a good job of preparing financially for retirement				
1995	25	47	18	10
2000	28	49	13	10
2003	24	45	15	14
2004	26	47	14	12
2005	26	46	12	16

(continued)

Figure 23 (continued)

	Very Confident	Somewhat Confident	Not Too Confident	Not at All Confident
Your retirement savings will last throughout your retirement				
1995	NA	NA	NA	NA
2000	NA	NA	NA	NA
2003	NA	NA	NA	NA
2004	NA	NA	NA	NA
2005	23	38	17	22
Having enough money to take care of medical expenses				
1995	17	37	26	15
2000	24	42	19	13
2003	18	40	22	19
2004	21	40	21	17
2005	20	38	21	20
Having enough money to pay for long-term care				
1995	NA	NA	NA	NA
2000	16	35	29	19
2003	14	34	26	24
2004	16	35	26	22
2005	17	30	25	26

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1995–2005 Retirement Confidence Surveys.

As with overall confidence, confidence about each of these specific aspects of retirement has remained relatively stable over the past few years. While the percentages of workers *not at all* confident has increased very slightly for some indicators, these increases represent a return to 2003 levels.

Overconfidence

Workers provide conflicting responses with respect to confidence and retirement preparation, suggesting that many workers may be *overconfident* about their retirement security. A general public opinion survey such as the RCS cannot provide a definitive answer to whether workers are saving adequately for retirement, however the RCS does provide some strong indications. First, workers who are who are *very* confident about their retirement financial prospects appear to be better prepared, on average, than those who are *somewhat* confident. In turn, those who are *somewhat* confident appear to be better prepared overall than those who are not confident.

For example, the reported total of savings and investments increases as confidence in having enough money to live comfortably throughout retirement increases, and the likelihood of having money saved for retirement, contributing to a workplace retirement plan, or having an IRA opened with money saved outside an employer's retirement plan increases with confidence. Similarly, the tendency to perform a retirement savings needs calculation increases with confidence in having enough money to live comfortably. Furthermore, confidence in the ability to accumulate the amount needed for retirement increases with confidence in having enough money to live comfortably, despite the fact that savings goals also tend to rise with confidence. Perhaps some of the increased preparation among the more-confident workers is due to the fact that they are generally more likely than less-confident workers to participate in an employment-based retirement plan and to have access to employer-provided educational material or investment advice.

However, workers who are the most confident about their financial security in retirement also tend to expect to get the most out of retirement. Workers who are *very* confident that they will have enough money to live comfortably throughout their retirement years are more than twice as likely as those who are less confident to expect to live 30 years or more in retirement. They are also less likely to expect that they will work for pay after they retire. At the same time, *very* confident workers are more likely than those who are less confident to believe they will be well off during retirement, and almost none believe they will struggle in retirement.

Nevertheless, there is considerable room for improvement in saving for retirement among at least some of those who say they are *very* confident. Twenty percent of *very* confident workers are not currently saving for retirement, 38 percent have less than $50,000 in savings, 52 percent do not have an IRA opened with money saved outside of an employer's retirement plan, 37 percent have not done a retirement needs calculation, and 35 percent say their level of debt is a problem. Although only 18 percent feel they are *behind* schedule in planning and saving for retirement, the small level of savings and significant problem from debt indicates this figure may be too low.

Confidence in Entitlement Programs

The RCS also examined worker and retiree confidence in Social Security and Medicare. Confidence in both programs has actually increased over the past 10 years, the RCS has found, even though concern is high for the future of both programs. Fewer than 1 in 10 workers say they are *very* confident that the Social Security system will continue to provide benefits of at least equal value to the benefits received by retirees today (8 percent), and almost one-quarter say they are *somewhat* confident (23 percent). At the same time, more than two-thirds are *not too* (33 percent) or *not at all* (35 percent) confident that future Social Security benefits will match or exceed the value of today's benefits. Worker confidence that Social Security will continue to provide benefits that are at least equal to today's value increases sharply with age, and retirees are more likely than workers to be confident about the future value of Social Security benefits.

Figure 24

Confidence That Social Security Will Continue to Provide Benefits of at Least Equal Value to Benefits Received by Retirees Today

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Workers											
Very confident	3%	3%	5%	6%	7%	7%	8%	6%	7%	7%	8%
Somewhat confident	16	17	17	16	21	21	26	25	26	28	23
Not too confident	42	40	36	31	38	39	33	38	35	31	33
Not at all confident	38	38	39	44	33	33	32	30	31	32	35
Retirees											
Very confident	12	7	14	19	17	26	28	27	27	18	21
Somewhat confident	30	36	34	34	34	33	38	31	36	39	37
Not too confident	35	36	33	31	33	27	20	30	22	26	26
Not at all confident	15	11	9	11	12	9	7	8	11	11	12

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1995–2005 Retirement Confidence Surveys.

While *worker* confidence that Social Security will continue to provide benefits at least equal in value to those received by retirees today has decreased slightly since 2004, *retiree* confidence in the value of Social Security benefits remains statistically unchanged since last year. However, both workers and retirees are more likely in 2005 than 10 years ago to say they are *very* confident about Social Security.

Similarly, 7 percent of workers are *very* confident that the Medicare system will continue to provide benefits of at least equal value to the benefits received by retirees today, while 30 percent are *somewhat* confident in the system. Many more, however, are *not too* (33 percent) or *not at all* (28 percent) confident that Medicare's benefits will continue to equal or exceed the benefits received by beneficiaries today. Again, worker confidence about the future value of Medicare benefits increases with age, and retirees are more likely than workers to be confident.

Figure 25

Confidence That Medicare Will Continue to Provide Benefits of at Least Equal Value to Benefits Received by Retirees Today

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Workers											
Very confident	2%	3%	3%	4%	7%	6%	7%	5%	5%	6%	7%
Somewhat confident	19	20	21	24	24	29	32	28	34	31	30
Not too confident	38	38	37	34	38	38	31	40	36	35	33
Not at all confident	38	37	34	36	30	27	26	26	25	26	28
Retirees											
Very confident	6	5	10	12	12	22	14	18	19	16	20
Somewhat confident	28	35	31	35	39	40	49	38	44	37	42
Not too confident	36	35	34	39	36	23	16	26	26	31	24
Not at all confident	20	16	17	11	12	7	13	16	8	11	9

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 1995–2005 Retirement Confidence Surveys.

Retirees are less likely than in 2004 to say they are not confident (33 percent, down from 44 percent) that Medicare will continue to provide benefits of equal value, and overall confidence levels are considerably higher than those measured in 1995 (*very* confident increased from 6 percent in 1995 to 20 percent in 2005; *somewhat* confident from 28 percent to 42 percent). Worker confidence in the value of Medicare benefits also remains far above 1995 levels (*very* confident increased from 2 percent in 1995 to 7 percent in 2005; *somewhat* confident from 19 percent to 30 percent).

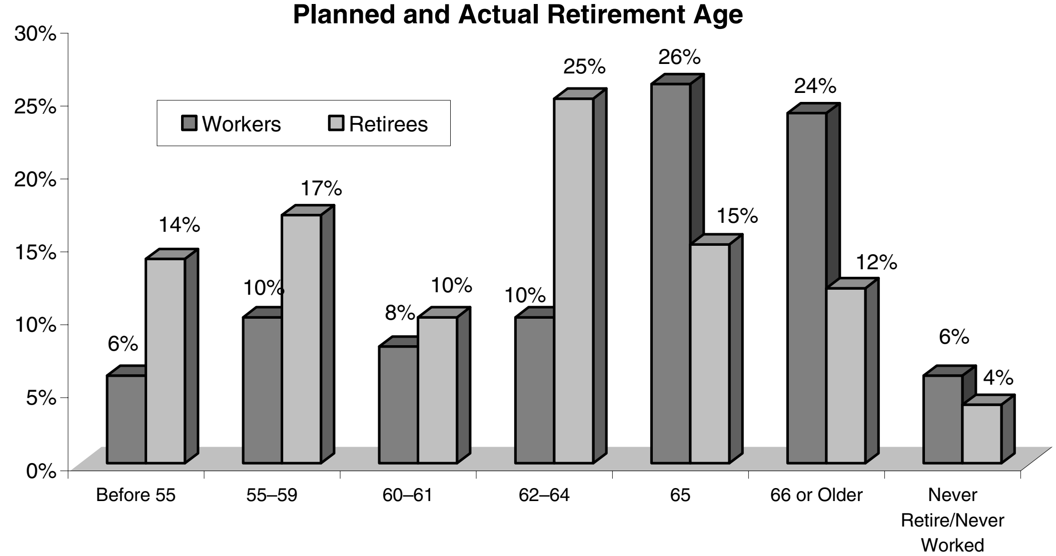
Expectations About Retirement

Retirement Age

On average, workers today plan to retire at age 65, while the average retiree retired at age 62. About one-third of workers plan to retire prior to reaching age 65; 16 percent say they will retire before age 60 and 19 percent plan to retire between the ages of 60 and 64. One-quarter of workers say they will retire at age 65 (26 percent), and one-quarter intend to retire at age 66 or even later (24 percent). However, these expectations are at odds with the experience of current retirees: The average retiree retired at age 62, and fewer than 3 in 10 say they retired at age 65 or later (27 percent).

Figure 26

Planned and Actual Retirement Age



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Many workers may work until their planned retirement age, and other surveys have found that the average age at retirement is slowly increasing. On the other hand, the RCS has consistently found that approximately 4 in 10 retirees leave the work force earlier than planned (40 percent in 2005). Many retirees who retired early cite negative reasons for leaving the work force before they expected, including health problems or disability (41 percent) or changes at their company, such as downsizing or closure (34 percent). 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. They are also more likely to have less than $25,000 in savings and investments and to describe their current lifestyle as struggling rather than adequate.

Because workers, like retirees, are likely to find themselves vulnerable to an unplanned early retirement for health, family, and other reasons, the strategy of postponing retirement to make up for inadequate retirement preparation may prove to be untenable for some. Eighteen percent of workers age 45 and over say that, in the past year, they have delayed the age at which they plan to retire. Most of those who make this decision say they did so for economic reasons: having to work longer to make up for losses in the stock market, lack of confidence about Social Security, concern about a poor economy, a higher-than-expected cost of living, and generally wanting to make sure they are financially secure.

Working in Retirement

Many workers expect to work for pay in retirement to supplement their income. In 2005, two-thirds of workers say they expect to work for pay after they retire (66 percent). While the 2005 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, just one-quarter of retirees report having actually worked for pay at some time during their retirement (26 percent). While retirees most often say they worked for pay because they enjoyed working and wanted to stay involved (66 percent), the large majority also identify at least one financial reason for having worked (81 percent). Yet almost half of retirees who worked in retirement are no longer doing so (45 percent), many because they are not healthy enough or are too old.

Workers who plan to work in retirement are subject to the same stresses that can lead to an unplanned early retirement. Although work for pay during retirement is rising, it is unlikely that all who would like to work will be able to do so. For some, this may result in reduced resources for retirement, and these workers' retirement security is likely to be in jeopardy.

Retirement Lifestyle

Some workers may have unrealistic expectations about how much of their preretirement income they will need to support themselves during their retirement years. Almost 2 in 10 workers think they will need less than 50 percent of their preretirement income in order to live comfortably in retirement (18 percent), while 4 in 10 believe they will need 50–70 percent (41 percent). Twenty-three percent think they will need 70–85 percent and 3 percent expect to need 85–95 percent of their preretirement income. Just 4 percent think their income in retirement will need to be about the same as right before retirement and 6 percent expect to need a higher income.

Many financial planners suggest that workers plan for a retirement income replacement ratio of at least 70 percent of their preretirement income. Certainly, many current retirees report they have higher income replacement ratios: Almost 4 in 10 retirees (38 percent) say their current income is about the same as their preretirement income (meaning about a 100 percent replacement of their preretirement income), 14 percent say their current income is higher, and almost half say it is lower (46 percent). (Retirees were not asked to account for inflation.)

Figure 27

Percentage of Preretirement Income in Retirement

	Workers (Needed in Retirement)	Retirees (Current Income)
Lower (don't know percentage)	NA	6%
Less than 50%	18%	14
50%–70%	41	17
70%–85%	23	8
85%–95%	3	2
95%–105% (about the same)	4	38
105% or more (higher)	6	14
Don't know/Refused	4	2

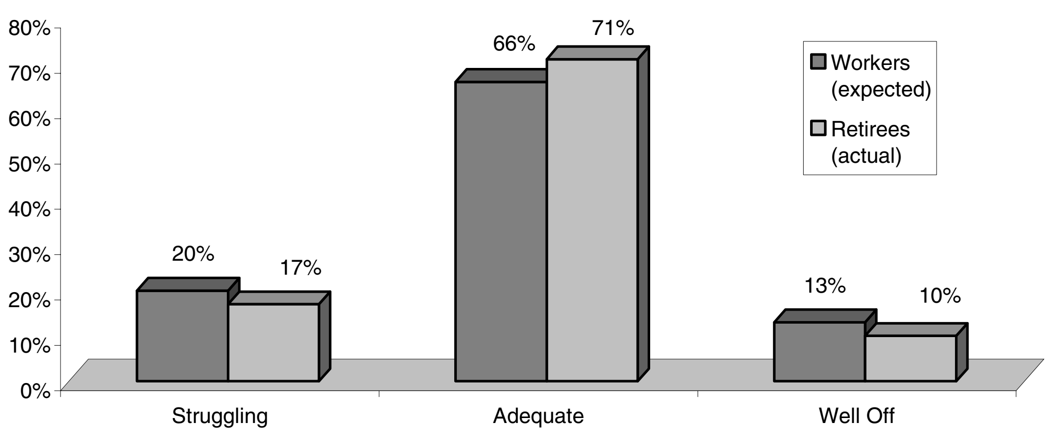
Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

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 better 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 70 percent or less of their preretirement income to live comfortably.

Two-thirds of workers expect that their standard of living in retirement will be adequate (66 percent), compared with 7 in 10 retirees who describe their current lifestyle this way (71 percent). About 2 in 10 each describe their retirement standard of living as struggling (20 percent of workers, 17 percent of retirees). Even fewer describe it as well-off (13 percent of workers, 10 percent of retirees). However, unless workers are able to maintain an *adequate* standard of living at a far lower replacement ratio than current retirees have, a much higher proportion of workers may find themselves struggling in retirement than are current retirees. Workers who are *behind* schedule in saving may already foresee that reality: They are more than twice as likely as those who are *on track* to describe their retirement lifestyle as struggling, despite the fact that both groups appear equally likely to say they need the same level of preretirement income replacement. Not surprisingly, the likelihood of expecting to struggle in retirement is inversely related to household income, assets, and health status: The lower the income or health status, the more they expect to struggle in retirement.

Figure 28

Descriptions of Retirement Financial Lifestyle



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

Length of Retirement

While 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. More than one-quarter expect to be retired for 20–24 years (27 percent), 9 percent think they will be retired for 25–29 years, and 17 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, 22 percent think they will live 10–19 years, and 19 percent say they do not know 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. 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 89 (men) or 90 (women). According to the 2004 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.[7]

Figure 29

Calculated Life Expectancy[a] for Workers, by Gender

	Males	Females
75% expect to live until age:	76	80
50% expect to live until age:	85	85
25% expect to live until age:	89	90

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 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 in the RCS.

Retirement Income

Not withstanding the past six years of individual benefit statements being mailed to the U.S. population from the Social Security Administration, 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. Half of workers believe they will be eligible for unreduced benefits sooner than they actually will (52 percent). One-third incorrectly think they will be eligible for unreduced benefits at age 65 (33 percent of all workers), and 2 in 10 think they will be eligible even before age 65 (20 percent). Only 19 percent 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. Two in 10 workers say they do not know when they will be eligible to receive full benefits from Social Security (20 percent). (In reality, the Social Security normal retirement age varies from age 65 to age 67, by year of birth.)

The percentage responding correctly is unchanged from when the question was first asked in 2000. Workers age 55 and over are more likely than younger workers to respond correctly.

Many workers are looking to some form of personal savings to provide their largest share of income in retirement. Approximately 2 in 10 each say they expect that money from a workplace retirement savings plan, such as a 401(k) (21 percent), or personal savings and investments outside of a workplace plan (18 percent) will provide their largest share. While 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, many of these workers may not be saving at rates necessary to provide the needed income.

Other workers are planning to rely on Social Security (18 percent), an employer-provided pension (16 percent), or employment (14 percent). In particular, 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. Far fewer say that their largest share will come from the sale or refinancing of their home (3 percent), an inheritance (3 percent), a lump-sum distribution from an employer-provided cash balance or defined benefit plan (2 percent), or support from family members (1 percent). Workers' expectations differ from retirees' experience in their higher expected levels of reliance on savings and employment and lower levels of reliance on Social Security and employer-provided pensions.

Figure 30

Largest Expected and Actual Sources of Income in Retirement

	Workers (Expected)	Retirees (Actual)
Workplace retirement savings plan	21%	3%
Personal savings or investments that are not in a work-related retirement plan	18	10
Social Security	18	45
Employer-provided pension	16	26
Employment	14	3
Sale or refinancing of your home	3	1
Inheritance	3	3
A lump-sum distribution from an employer-provided cash balance or defined benefit plan	2	1
Support from children or other family members	1	3
Don't know/Refused	4	7

Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2005 Retirement Confidence Survey.

RCS Methodology

These findings are part of the 15th annual Retirement Confidence Survey (RCS), a survey that gauges the views and attitudes of working-age and retired Americans regarding retirement, their preparations for retirement, their confidence with regard to various aspects of retirement, and related issues. The survey was conducted in January 2005 through 20-minute telephone interviews with 1,253 individuals (1,001 workers and 252 retirees) age 25 and older in the United States. Random digit dialing was used to obtain a representative cross section of the U.S. population. Starting with the 2001 wave of the RCS, all data are weighted by age, sex, and education to reflect the actual proportions in the adult population. Data from the 2005 RCS are also weighted by retiree status due to this year's oversample of non-retired Americans. Data for the previous waves of the RCS have been weighted to allow for consistent comparisons; consequently, some data in the 2005 RCS may differ slightly with data published in previous waves of the RCS. Data presented in tables in this report may not total to 100 due to rounding and/or missing categories.

In theory, each sample of 1,252 yields a statistical precision of plus or minus three percentage points (with 95 percent certainty) of what the results would be if all Americans age 25 and older were surveyed with complete accuracy. There are other possible sources of error in all surveys, however, that may be more serious than theoretical calculations of sampling error. These include refusals to be interviewed and other forms of nonresponse, the effects of question wording and question order, and screening. While attempts are made to minimize these factors, it is impossible to quantify the errors that may result from them. For individual question sample size, please see the complete 2005 RCS PowerPoint® presentation file available on the EBRI Web site at www.ebri.org/rcs/2005/index.htm

The RCS was co-sponsored by the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan public policy research organization; and Mathew Greenwald & Associates, Inc., a Washington, DC-based market research firm. The 2005 RCS data collection was funded by grants from about two dozen public and private organizations, with staff time donated by EBRI and Greenwald. RCS materials and a list of underwriters may be accessed at the EBRI Web site: www.ebri.org/rcs

Endnotes

[1] In the RCS, *retiree* refers to individuals who are retired or who are age 65 or older and not employed full time. *Worker* refers to all individuals who are not defined as retirees, regardless of employment status.

[2] It is likely that this percentage is slightly higher than the actual participation rate, since some workers who do not participate in an employer-sponsored retirement savings plan are not aware of their eligibility.

[3] Many of these respondents are likely to be in a plan that bases contributions on a percentage of salary (and therefore automatically increases the dollar amount of the contribution with each pay raise), rather than in a plan that raises the base contribution rate with each pay raise.

[4] Respondents were not informed of the relative cost differences between these options.

[5] Respondents were not informed of the relative cost differences between these options.

[6] EBRI estimates from the 2001 Survey of Consumer Finances.

[7] 2004 OASDI Trustees Report, Assumptions and Methods Underlying Actuarial Estimates, www.ssa.gov/OACT/TR/TR04/wp156683

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