Special Advertising Section

Workers Are Waking Up to "The New Normal"

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Compared with the depths of the recent recession, the start of 2011 posted a number of favorable economic signs, including a declining unemployment rate and improving stock market. So how do most Americans currently view their future retirement prospects, now that they appear to have improved?

They're more realistic than they've ever been. For the past 21 years, EBRI has conducted its annual Retirement Confidence Survey (RCS), and the 2011 results — just released — are among the most encouraging we've ever measured. More than a quarter (27 percent) of workers now say they are "not at all confident" about having a comfortable retirement, up 5 percentage points from the level measured just one year ago.

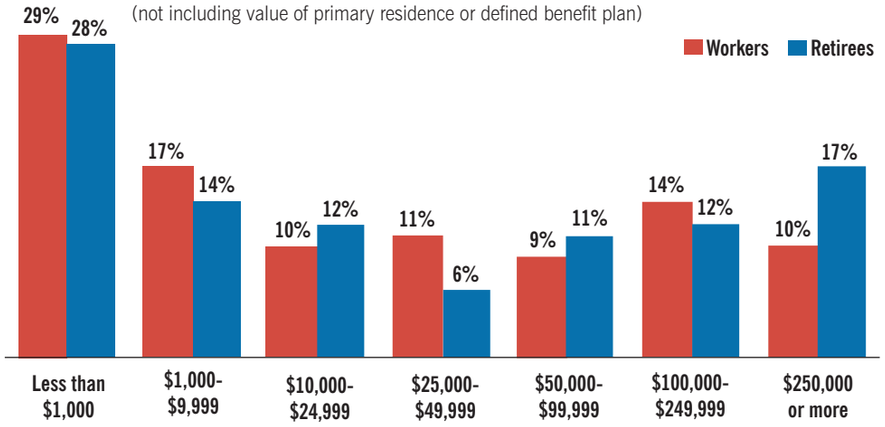
Looking at the other side of the coin, only 16 percent of workers say they are "very confident" that they can afford retirement, down 13 percentage points from a year ago — and the lowest rate we've ever found over the past two decades.

Why do I view this as encouraging rather than dismal? Americans are going in the right direction; they are right to focus on the long term. During the go-go years, the RCS results showed high false confidence. Hope was setting aside reality. A lottery win appeared to be assured, since the hard work of saving was to be avoided.

Now, it seems workers are finally waking up to the reality of what they're facing: "the new normal" of systemic, long-term challenges, such as ever-rising health care costs with no control in sight and fiscal crises which are already bringing cuts in social safety-net programs, employer pensions and health care. Added to this are other challenges including the impact of lower interest rates and investment returns, and a rapid increase in the over-65 population with longer life expectancy. And the list goes on.

Total Savings and Investments Reported, Among Those Providing a Response

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



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc., 2011 Retirement Confidence Survey

Many workers seem to recognize the tough retirement realities they have ignored — and experts have warned about — for years:

Delayed retirement: The portion of workers who expect to retire after age 65 has increased over time, from 11 percent in 1991 to 36 percent in 2011. One in five workers say they now intend to retire at an older age than they had planned.

Working for pay in retirement: In 2011, 74 percent of workers said they expect to work in retirement (up 4 percentage points from last year); it is three times the percentage of retirees who currently say they actually worked for pay during retirement.

Paying for health care in retirement: Even though current retirees are very optimistic about being able to pay for health care in retirement (68 percent are confident vs. 30 percent who are not confident), those currently working say they won't be as lucky. Today's workers are almost evenly split about having enough money for retiree health care, with 48 percent "very or somewhat confident" and 50 percent "not too confident" or "not at all confident." (2 percent either didn't know or refused to answer.)

Behind schedule: When workers are asked to evaluate their progress in planning and saving for retirement, 70 percent state that they are behind schedule. This is 15 percentage points higher than the 55 percent who fell behind schedule in 2005.

More Changes Needed

The good news: Many Americans are finally realizing they are in trouble and are changing their expectations about retirement savings — but more need to change their behavior as well. Our research found:

Currently saving: Among workers, almost 60 percent say they and/or their spouse are currently saving for retirement. This is down from 65 percent in 2009 but equivalent to other years. About two-thirds (68 percent) say they have already saved for retirement. This figure is also down, from 75 percent in 2009 but the same as last year.

More assets needed: Among workers surveyed (who provided this type of information), almost 30 percent say they have less than $1,000 in savings and assets. More than half report that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000 (see figure). Workers using a savings plan at work or an IRA are faring the best.

More planning: Just 42 percent say they and/or their spouse have tried to calculate how much money they will need to have saved by the time they retire to afford a comfortable retirement. This is up 10 percentage points from 1995.

Better preparation for unforeseen retirement required: A growing number of workers say they expect to work longer, but that's not what happened for many of those already retired. As the RCS has long found, nearly half of current retirees (45 percent) say they retired earlier than they planned, mainly because of a health problem, disability or economic change that forced them to leave their jobs. This indicates that individuals need additional planning to prepare for the possibilities of disability and long-term care, and additional training to keep their job skills marketable.

More Information Welcomed

The RCS finds that few workers and retirees (23 percent each) say they obtained investment advice from a fee-only professional financial advisor, although it should be noted that number rises with income. Most say they'd rather make their own decisions, which indicates that further education and planning are needed.

The RCS also finds that overwhelmingly, workers want new information about how to make the most of retirement savings. They support the idea of receiving periodic statements showing how much they should save so that they can maintain their current lifestyle after they retire and how much retirement income they could expect from the money they currently have in their accounts.

The Time is Right

The years ahead are likely to include more pension, Social Security and health care reforms. All proposals suggest lower benefits, higher individual costs and fewer set promises.

The RCS suggests that public recognition of the need to save for the future, and keep saving, may have arrived just in time.