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2013 Retirement Confidence Survey

March 19, 2013

The Retirement Confidence Survey provides insights on reasons behind crucial decisions American workers are making and reveals the extent of the risk many are unknowingly taking. The survey also indicates one step that American employers can take that can be highly effective in increasing the savings rate and, therefore, the retirement security of American workers.

First, savings rates of workers are disturbingly low and many are not saving at all. Only two-thirds of workers say they, or their spouse, have saved any money for retirement. At this point in time only 57% are actively saving money for retirement. As a result, the accumulated savings of many workers are quite low. Almost 3 in 5 (57%) of workers have financial assets that total to less than $25,000, not including their primary residence. Even when we just look at workers ages 45 and over, just under half (47%) have less than $25,000. Clearly, many are way behind in their financial preparation for retirement. Even with this low level of savings, in the past 12 months 1 in 3 workers, or their spouses, actually withdrew savings to pay for current expenses.

This raises the question: Why aren't working people saving more? The answer is clear. We asked people whose employers provide a retirement plan why they are not saving more—these are people who have a very easy way to save—and the main answer given by 41% is the cost of living and day-to-day expenses. Eighteen percent state they cannot afford to save more, which is basically the same thing.

However, previous Retirement Confidence Surveys have demonstrated that this is not really true. In past years when we asked people who were saving for retirement and those who were not if they could afford to save $25 a week more, or start saving $25 a week, a majority said they could. What, we asked, would they have to give up? The main thing cited was eating out. Others identified other minor ways of cutting back, such as cutting back on entertainment, clothing expenditures, curbing impulse spending and other strategies. Thus, while people feel the pressures of maintaining their lifestyles, which is real, they also know after a little introspection, that there are some things that they can relatively easily cut back on that would permit more saving for retirement.

So what beliefs permit people to keep their current level of spending? The Retirement Confidence Survey suggests that two expectations contribute strongly. The first is the expectation of working longer. The most significant trend in the 23-year history of the Retirement Confidence Survey is the plan to work longer. In 1991, 19% of workers planned to retire before age 60 and another 31% between age 60 and 64. That is a total of 50%. Another 34% planned to retire at age 65.

But now, only 9%—not 19%—plan to retire before age 60, and only 14%—not 31%—plan to retire between ages 60 and 64. On the other extreme, in 1991 only 2% planned to retire at ages 66-69 and another 9% at ages 70 or older. But now, 10% plan to retire at ages 66-69 and a full 26% plan to put off retirement at least until age 70. The other expectation is that they can continue to work in retirement: 7 in 10 workers (69%) plan to work for pay after they retire.

In some ways, this is realistic and reasonable: if you do not save enough you must work longer to accumulate what you need. Additionally, working in retirement is often necessary for those who cannot set aside what they need to now.

But the Retirement Confidence Survey indicates that these plans can also be considered risky behavior if people use the expectation of longer work to justify not saving sufficiently now. The risk is that many workers as they get older cannot work for reasons beyond their control, including disability, ill-health, and loss of a job and inability to get another. The Retirement Confidence Survey has consistently asked retirees if they retired when planned and we have consistently found that 2 in 5 retirees or more state they had to retire *before* they planned, mostly for these factors that they could not control. This year, it was even higher. Almost half of retirees (47%) had to retire before they expected. Just 14% of retirees in the 2013 Retirement Confidence Survey retired after age 65, and just 25% of retirees worked for pay in retirement.

What does this mean? Those 26% of workers expecting to work until 70 or beyond, and even many of those expecting to retire at a younger age, are taking a substantial risk, as demonstrated by the fact that almost half of retirees were forced to retire before they planned. Those 69% expecting to earn money from work after they retire, probably to make up for low savings, are taking a substantial risk, as demonstrated by the fact that only 1 in 4 retirees actually earned money from work after they retired.

Thus, the survey results contain a lesson for workers: Do not put off too much saving. Plan to save at least a foundational amount by age 60. The risk of waiting beyond that to build a foundation is too high.

The survey also shows the important role employers that offer retirement plans can play in helping theirworkers. Some employers that offer 401(k) retirement plans automatically enroll new employees into the plan. This has been shown to increase the number of people in retirement plans. Asked what they would do if they were automatically enrolled in a retirement plan and 3% of their pay contributed to the plan, 77% of employees not currently offered a plan say they would maintain the contribution or increase it. Even if 6% was automatically saved, more than half say they would maintain that level or increase it.

Knowing how much to save for retirement is a complex calculation. The Retirement Confidence Survey shows the difficulty workers have in deciding how much to save and the risks they are subjecting themselves to. More effective actions by employers can help a great deal in getting workers saving an encouraging them to save more.

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